

# Fiscal policy honoured

By [Jérôme Creel](#)

“The size of many multipliers is large, particularly for spending and targeted transfers.” Who today would dare to write such a thing?

The answer is: 17 economists from the European Central Bank, the US Federal Reserve, the Bank of Canada, the European Commission, the International Monetary Fund, and the Organization for Economic Cooperation and Development, in an article published in January 2012 in the [American Economic Journal: Macroeconomics](#).

They continue in the abstract: “Fiscal policy is most effective if it has moderate persistence and if monetary policy is accommodative. Permanently higher spending or deficits imply significantly lower initial multipliers.”

What are the values of these multiplier effects, and what about the significant reduction in such effects if fiscal policy is expansionary over the long term? According to these 17 economists, based on eight different macroeconomic models for the US and four different models for the euro zone, the conclusion is clear: a fiscal stimulus that is in effect for 2 years, accompanied by an accommodative monetary policy (the interest rate is kept low by the central bank) produces multiplier effects that are well above one both in the United States and in the euro zone (between 1.12 and 1.59) if the stimulus plan targets public consumption, public investment or targeted transfers. For other instruments available to government, such as VAT, the effects are smaller, on the order of 0.6, but still decidedly positive.

What if the stimulus is continued? The multiplier effects of a permanent increase in public consumption dwindle, of course, but they remain positive in the euro zone, regardless of the

model used and regardless of the assumption made about the monetary policy pursued. Rare cases of negative multiplier effects are reported for the United States, but these depend on the model used or on assumptions about monetary policy.

Finally, a comment and a question raised by this recent article.

The comment: the choice of an optimal fiscal policy in the euro zone is well worth a few moments of reflection, reading and analysis of current work, rather than a truncated and distorted vision of fiscal policy that is judged without fair consideration as harmful to economic activity.

The question: an expansionary fiscal policy has ... expansionary effects on gross domestic product; must we really deprive ourselves of an instrument that is, after all, effective?

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# La relance budgétaire à l'honneur

par [Jérôme Creel](#)

« La taille de nombreux multiplicateurs est grande, particulièrement pour les dépenses publiques et les transferts ciblés. » Mais qui, encore de nos jours, ose écrire une chose pareille ?

La réponse est : 17 économistes issus de la Banque centrale européenne, de la Réserve fédérale américaine, de la Banque du

Canada, de la Commission européenne, du Fonds monétaire international, et de l'Organisation pour la coopération et le développement économique, dans un article publié en janvier 2012 dans [American Economic Journal: Macroeconomics](#).

Ils poursuivent, dans leur résumé, en écrivant : « La politique budgétaire est d'autant plus efficace qu'elle est temporaire et que la politique monétaire est accommodante. Les hausses permanentes de dépenses et de déficits publics réduisent significativement les effets multiplicateurs initiaux. »

Quelles sont les valeurs de ces effets multiplicateurs et qu'en est-il de la réduction significative desdits effets si la politique budgétaire est en permanence expansionniste ? Selon ces 17 économistes, et sur la base de 8 modèles macroéconométriques différents pour les Etats-Unis, et de 4 modèles macroéconométriques différents pour la zone euro, la conclusion est claire : une relance budgétaire effective pendant 2 ans, accompagnée d'une politique monétaire accommodante (le taux d'intérêt est maintenu bas par la banque centrale) produit des effets multiplicateurs largement supérieurs à l'unité aux Etats-Unis comme dans la zone euro (entre 1,12 et 1,59) si le plan de relance porte sur la consommation publique, l'investissement public ou les transferts ciblés. Pour les autres instruments à la disposition des gouvernements, comme la TVA, les effets sont moindres, de l'ordre de 0,6, mais bel et bien positifs.

Qu'en est-il si la relance persiste ? Les effets multiplicateurs d'une hausse permanente dans les consommations publiques s'amenuisent, certes, mais ils restent toujours positifs dans la zone euro, quel que soit le modèle utilisé et quelle que soit l'hypothèse faite sur la politique monétaire poursuivie. De rares cas d'effets multiplicateurs négatifs sont reportés pour les Etats-Unis, mais ils dépendent du modèle utilisé ou de l'hypothèse portant sur la politique monétaire.

Pour conclure, une remarque et une question soulevées par cet article paru récemment.

La remarque : le choix de la stratégie budgétaire optimale de la zone euro vaut bien quelques instants de réflexion, de lecture et d'analyse des travaux existants plutôt qu'une vision tronquée et déformée de la politique budgétaire jugée, sans procès équitable, nocive pour l'activité économique.

La question : la politique budgétaire expansionniste a des effets... expansionnistes sur le produit intérieur brut ; faut-il donc se priver d'un instrument somme toute efficace ?

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## **AAA, AA+: much Ado About nothing?**

by [Jérôme Creel](#)

The loss of France's AAA rating on Friday the 13<sup>th</sup> of January 2012 was a historic event. It poses three questions: should the austerity measures announced in autumn 2011 be strengthened? Why has Germany been singled out? And what is to be done now?

The loss of the AAA rating on French government bonds is not surprising – far from it. The sovereign debt crisis that has shaken the euro zone for over two years, starting in the autumn of 2009, was not managed properly because it occurred during a recession, at a time when all the EU Member States

had their eyes glued to their own economic difficulties. In the absence of a concerted response that included immediate solidarity and mutual guarantees by the euro zone Member States of the zone's entire public debt, with the support of the European Central Bank (cf. Catherine Mathieu and Henri Sterdyniak, [here](#)), the foreseeable contagion occurred. The objective public finance mistakes committed by successive Greek governments followed by the vagaries of the Irish banks have now led to a systemic crisis in Europe.

By implementing austerity measures simultaneously, Europe's governments have magnified the economic difficulties: economic stagnation and even recession are now on the agenda for the euro zone (cf. Xavier Timbeau *et al.*, [here](#)). A downgrade of debt ratings in the euro zone was thus to be expected. It does, however, raise three questions.

1. Should the austerity measures be strengthened? In a commentary on the supplementary 7 billion euro French austerity plan announced in November 2011, Mathieu Plane (see in French [here](#)) pointed out that the race for the AAA rating had already been lost. The impact of this austerity plan on economic growth was objectively inconsistent with the fiscal consolidation target – and Standard & Poor's was surely not unaware of this argument.
2. Why did S&P single out Germany and Slovakia, the only economies in the euro zone not downgraded on Friday 13 January? While their commercial links are undeniable (cf. Sandrine Levasseur, 2010, [here](#)), which could justify their comparable treatment, the main markets for both of these economies, and particularly Germany, lie in the euro zone. Slowing growth in the euro zone outside Germany will not leave the other side of the Rhine unaffected (cf. Sabine Le Bayon, in French [here](#)). It is difficult to see how the contagion of the crisis could stop at the borders of Germany and Slovakia. The

recent take-up of German government 6-month bonds at a negative interest rate could even be interpreted to reflect extreme distrust of Germany's commercial banks. In any case, its economy, situated in the euro zone, is no less fragile than that of France.

3. What should be done now in France? The loss of the AAA rating reflects a negative outlook both for the state of public finances and for economic growth. While Germany has not been downgraded, it is possible that this is because S&P takes a positive view of its non-cooperative strategy in the past. From this perspective, the principle of a social VAT measure can be considered a way to help France catch up with Germany in terms of competitiveness, as Jacques Le Cacheux points out ([here](#)): if the Germans did it, why can't we? This would help boost tax revenue by increasing the competitive advantage of businesses established in France. If such a measure were to be adopted, Germany and France would be on equal footing. The two countries could then sensibly consider a cooperative policy for a recovery in Europe. Some possible focuses include: industrial policy (cf. Sarah Guillou and Lionel Nesta, in French [here](#)); social policy; an ambitious climate and energy policy (cf. Eloi Laurent, [here](#)); and a financial policy that includes a common tax on financial transactions, with the revenue raised being used to ensure that the taxpayer would never again need to bail out the private banks, which would free up additional maneuvering room for the first three policies. The policy outlines would of course need to be defined, but it is crucial to recognize that policy action is urgently needed.
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# AAA, AA+ : RAS ?

par [Jérôme Creel](#)

La perte du AAA de la France le vendredi 13 janvier 2012 est un événement historique. Elle pose trois questions : fallait-il renforcer l'austérité budgétaire à l'automne 2011 ? Pourquoi l'Allemagne a-t-elle été singularisée ? Que faire désormais ?

La perte du AAA pour les obligations d'Etat françaises n'est pas surprenante, loin s'en faut. La crise des dettes publiques qui secoue la zone euro depuis plus de deux ans – elle a démarré à l'automne 2009 – n'a pas pu être gérée convenablement car elle est survenue en période de récession, à un moment où tous les Etats membres européens avaient les yeux rivés sur leurs propres difficultés économiques. Sans réponse concertée, passant par une solidarité immédiate et des garanties mutuelles octroyées par les Etats membres de la zone euro sur l'ensemble des dettes publiques de la zone, avec le soutien de la Banque centrale européenne (cf. Catherine Mathieu et Henri Sterdyniak, [ici](#)), la contagion prévisible a eu lieu. Les erreurs objectives de finances publiques commises par les gouvernements grecs successifs, puis les errements des banques irlandaises ont produit une crise européenne systémique.

En mettant en œuvre, tous en même temps, des politiques d'austérité budgétaire, les gouvernements européens n'ont fait qu'amplifier les difficultés économiques : la stagnation économique, voire la récession, sont désormais au programme de la zone euro (cf. Xavier Timbeau *et al.*, [ici](#)). La dégradation des notations souveraines dans la zone euro était donc attendue. Elle pose cependant trois questions.

1. Fallait-il renforcer l'austérité ? Mathieu Plane (voir [ici](#)), dans son commentaire sur le plan d'austérité

français supplémentaire de 7 milliards d'euros, annoncé en novembre 2011, pointait déjà du doigt la course perdue au AAA. Les effets sur la croissance de cette austérité étaient objectivement incompatibles avec l'objectif d'assainissement budgétaire annoncé : cet argument ne peut pas avoir été négligé par Standard & Poor's.

2. Pourquoi l'agence S&P a-t-elle singularisé l'Allemagne et la Slovaquie, seules économies de la zone euro à n'avoir pas été dégradées vendredi 13 janvier ? Si leurs liens commerciaux sont indéniables (cf. Sandrine Levasseur, 2010, [ici](#)), ce qui peut justifier de les associer, ces deux économies, et surtout l'Allemagne, trouvent leurs principaux débouchés dans la zone euro. La décélération de la croissance dans la zone euro, hors Allemagne, ne sera certainement pas sans conséquence outre-Rhin (cf. Sabine Le Bayon, [ici](#)). On voit donc mal comment la contagion de la crise pourrait s'arrêter aux frontières de l'Allemagne et de la Slovaquie. On peut même interpréter la récente souscription d'obligations publiques allemandes à 6 mois, à un taux d'intérêt nominal négatif, comme le signe d'une extrême défiance à l'égard des banques commerciales allemandes. La fragilité de cette économie, dans la zone euro, n'est pas moindre que celle de la France.
3. Que faire désormais, en France par exemple ? La perte du AAA témoigne à la fois de perspectives négatives sur l'état des finances publiques et sur la croissance économique. Si l'Allemagne n'est pas dégradée, peut-être est-ce parce que sa stratégie non coopérative passée a été jugée efficace par S&P. Le principe de fixation d'une TVA sociale peut donc être envisagée comme un moyen de rattrapage de la compétitivité française par rapport à l'Allemagne, comme le souligne Jacques Le Cacheux ([ici](#)) : si les Allemands l'ont fait, pourquoi pas nous, désormais ? Cela permettrait d'augmenter les recettes fiscales, en renversant l'avantage de

compétitivité au profit des entreprises résidentes françaises. Après qu'une telle mesure aura été prise, si elle l'est, l'Allemagne et la France se retrouveront sur un même pied d'égalité. Ces deux pays, et les autres Etats membres de la zone euro, pourront alors sainement envisager une politique coopérative de relance européenne. Politique industrielle (cf. Sarah Guillou et Lionel Nesta, [ici](#)), politique sociale, politique climatique et énergétique ambitieuse (cf. Eloi Laurent, [ici](#)), politique financière par l'instauration d'une taxe commune sur les transactions financières dont le produit servirait à éviter désormais que les banques privées soient renflouées par les contribuables, ce qui libérerait des marges de manœuvre pour les trois premières politiques : telles sont quelques options possibles. Leur contour reste certes à définir, mais réclamer qu'elles soient mises en œuvre d'urgence est devenue une nécessité.

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# A letter to President François Hollande

by Jérôme Creel, Xavier Timbeau and Philippe Weil [[archivage et redirection](#)]

[[version française](#) ; [english version](#)]

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# Regaining confidence in the euro: Three pressing issues

By [Jérôme Creel](#)

In a communication on European economic governance before the European Parliament's ECON Committee on Monday, 17 October 2011, three pressing issues were identified in order to save the euro and improve its management.

Saving the euro without further delay is the priority. To do this, it is necessary to provide the EFSF with sufficient funds and to require the ECB to continue intervening in the market for government bonds, so as to resolve the difference between the long-term rates of the peripheral countries and those in the countries in the heart of the euro zone (Germany, France, Netherlands), where these rates are falling and thus benefiting these countries, whereas the rise in the periphery is placing a heavy burden on the public finances of Greece, of course, but also of Portugal and Spain.

Second, the new legislation amending the Stability and Growth Pact and setting up a symmetrical device for monitoring macroeconomic imbalances needs to be implemented as soon as possible. This second priority is urgent, too: it should in the future allow the euro zone to avoid a new crisis, or at least to protect itself with proper instruments and surveillance. In this context, the European Parliament is being asked to "check the checkers" so as to give a real boost to Europeans' trust in their institutions.

Finally, it is necessary to ensure the proper functioning of European governance. Nothing has been lost, intelligent rules do exist: they must be applied after consultation. Inflation targeting on the monetary side and a genuine golden rule of public finances on the budget side both need to emerge.

Communication to the European Parliament ECON Committee, 17 October 2011

Dear Honorable Members,

After almost two years of European turmoil related to the bad management of public finances in a few Eurozone countries, and more than four years after a deep worldwide crisis, time is certainly ripe for reaching European solutions to cure the crisis. Two emergencies are at stake: first, stopping distrust's contagion vis-à-vis Eurozone members; second, stopping misbehaviors' contagion among Eurozone members in the future. By the way, this second emergency certainly necessitates a separation between two periods: the short run and the longer run.

#### 1. Short run emergency 1: improving trust in the Euro

In order to cope with the first emergency, Eurozone countries need a more automatic solidarity mechanism. There have been different options discussed and implemented so far at the Eurozone level, from the EFSF (then future ESM) to Eurobonds, or the intervention of the ECB on secondary markets. They all need to be enforced and implemented as soon as possible without limitations, otherwise discrepancies in long-term yields on public bonds will continue to grow across Eurozone members, at the expense of countries with twin deficits and at the benefit of countries which are closer to twin balance. Without strong automatic interventions, Eurozone countries take the risk of feeding distrust in their ability to support the Euro. The consequence might be distrust in the future of the Euro, distrust in the future of the EU project.

#### 2. Short run emergency 2: enforcing the "6-pack" with improvement in its democratic content

In order to cope with the second emergency, the European Commission, the President H. van Rompuy and the European Parliament have dealt with the EU governance of the near

future through a “6-pack” of legislative amendments which were adopted on 25 September 2011.

A major step has been made in the good direction: macro imbalances are no longer automatically related to deficits as they may also refer to surpluses; and a macro imbalance can be considered “excessive” only to the extent that it “jeopardizes or risks jeopardizing the proper functioning of the EMU”. This is clear understanding that provided Eurozone countries are primarily partners rather than competitors, their trade links shall not be automatically confounded with risky imbalances for they do not impinge on the common currency, the Euro.

The “6-pack” also deals with the better enforcement of the Stability and Growth Pact, introducing earlier sanctions, and a more comprehensive fiscal surveillance framework. This is certainly necessary to make sure that the risk of moral hazard in the Eurozone is reduced to a minimum. However, the overall ‘6-pack’ must pass beforehand criteria for the effectiveness of a fiscal rule.

There have been different ways to assess reform proposals for economic policies. A well-known and convenient one is a set of criteria first developed by George Kopits and Steven Symansky at a time when both were working at the IMF. According to them, a fiscal rule is effective if it is well-defined, transparent, simple, flexible, adequate relative to goal, enforceable, consistent and efficient. In an amendment by the European Parliament related to macro imbalances, one can read that the indicators in the scoreboard must be relevant, practical, simple, measurable and available; moreover, flexibility is advocated in the assessment of macro imbalances. The Kopits-Symansky criteria are thus still relevant, and only their seventh criterion, consistency, seems to have been forgotten from the list. Does it reveal that through the current reform proposals, no one wishes to deal with monetary policy, which consistency with fiscal policies might well be assessed, and the other way round?

I have written elsewhere my own views on Kopits and Symansky's set of criteria ([Creel, 2003](#); [Creel and Saraceno, 2010](#)), but I think I need to insist on the simplicity one. I fear the existence of a so-called "simplicity" criterion when complex problems are arising. For instance, a strong public deficit may be due to 'bad times' (recession, slow GDP growth), interest rates hikes, wrong policies, a non-existing tax system, etc. A simple rule cannot handle the multiplicity of the causes for a deficit. I also fear that such a criterion is simply disrespectful towards the people: well-informed people can certainly approve complex rules if they believe that those who implement them target the common interest.

It leads me to propose that the "simplicity" criterion is changed into a "democratic" criterion. That change would not be substantial as regards Kopits and Symansky's justification of their criterion: simplicity is required, they say, to enhance the appeal of the rule to the legislature and to the public. Changing "simplicity" into "democratic" would thus be consistent with their view. It would add two advantages. First, there would be no need to target simple or simplistic rules, if more complex ones are required. Second, to enhance their appeal to the public, these rules should be endorsed and monitored by a Parliament: as their members are the representatives of the public, the latter would be fully informed of the nature and properties of the rule.

What would be the main consequences of assessing reform proposals through the lens of democratic content in the current context? First, the now-complex setting of fiscal rules in the EU, under the amendments of 25 September 2011, is well-defined but it is no longer simple. That should not lead us to assume that these rules will not be efficient. Second, if all European authorities, including the European Parliament, approved a stricter surveillance mechanism for fiscal policies, macro imbalances, and employment guidelines, control over the misbehaving countries should be shared with

all these authorities, hence also including the European Parliament. The implication of the latter, with that of the European Council, would enhance the appropriation of rules by the public, and the trust of the public in their institutions. Third, another consequence would be that automaticity in sanctions should not be an option for automaticity is contradictory with the essence of a democracy: contradictory debates.

Are the current reform proposals respecting the “democratic” criterion? The implication of the EP in these reforms already calls for a positive answer. Nevertheless, the implication of the EP in “checking the checkers” is necessary to achieve a definite positive answer. This implication might be very productive in reassessing the effectiveness of the policies which are undertaken in a country where suspicion of misbehavior is developing. The implication of the Economic Dialogue and the European Semester should also be used to improve trust in the EU institutions and the Eurozone governments, with due respect to the subsidiarity principle. Sharing information, analyses, data should be viewed by all partners as a way to achieve cooperation, keeping in mind that John Nash showed through his solutions that cooperative equilibria always lead to a win-win situation.

“Checking the checkers”, as I mentioned above, involves an informed assessment of the effectiveness of fiscal policies. Such an assessment is not dealt with in the current Stability and Growth Pact. During the procedure of fiscal surveillance, and before sanctioning a country, it is of the highest priority to gauge the effectiveness of a fiscal policy which has led to higher deficits and debts.

Discussions about fiscal policies are usually very pessimistic nowadays, as far as their effectiveness is concerned, but those endorsing these discussions take the risk that the people have finally no trust in their governments, for they are said to follow the wrong policies, and in the European

institutions that are not able to stop these policies.

It may be useful to recall (once again?) that a consensus exists in the economic literature about the sign of the fiscal multiplier: it is [positive](#). And because of that, the Chinese, US, German, French, etc. governments decided to increase their deficits through discretionary policies during the worldwide crisis: these governments were conscious that their policies were helpful. Why shouldn't they during other 'bad times'? Why should we all think that a contagion of fiscal restrictions in the EU will help us thrust again? Good policymaking requires that policies are contingent to the economic situation (GDP growth, inflation rate, level of unemployment, etc.).

In my view, at this stage, there are two important prerequisites to a rapid improvement in the EU governance, and I do not think they require a new Treaty. We all know that at the ECB and beyond, some argue that political pressures led this institution to buy public bonds, in contrast, they add, with the EU Treaty. Its independence would have been at stake. For this reason, the first prerequisite is in recalling the independence and mission of the ECB. The ECB is a young institution and it needs confidence in itself, as a teenager does. Once definitely adult, after full confidence is reached, the ECB will not fear coordination or cooperation with governments and the EP that fully respect its independence but may wish to improve the consistency of their policies with its.

The second prerequisite is in recalling the objectives of the EU, growth and stability, and in admitting that there is not a single way to achieve these objectives, for countries are still so different within the EU, even within the Eurozone. The 'one size fits all' is no longer an option, hence the necessity to complement fiscal rules with an assessment of macro imbalances and with regular, transparent, and democratically-controlled assessments of the relevance of the underlying analyses by governments on the one hand, and

controllers on the other. There is a strong role for the EP in acknowledging and managing this no 'one size fits all' way of dealing with fiscal rules.

### 3. Longer run emergency 2: more intelligent rules?

In the longer run, if improvements by the ECB in cooperating with governments have not materialized, a binding commitment to follow a cooperative behavior could be included in the statutes of the ECB. A change in its statutes might also be considered, with a view to adopting, for instance, a [dual mandate](#) similar to that of the Fed. That way, it would be clear that "if 5% inflation would have (Central bankers') hair on fire, so should 9% unemployment" (Ch. Evans, 2011). Another possibility would be to urge the ECB to implement full inflation targeting. That would require the ECB to make public its forecasts and minutes of decisions, thus enhancing information and potentially influencing the private sector.

Lastly, the most important debate on fiscal policymaking is in wondering what governments are doing with tax and spending, and how they finance them. The European Semester and the monitoring of indicators of macro imbalances certainly go in the good direction, but rather than a global view on the evolution of deficits and debts, Eurozone countries should think about circumscribing the good and bad parts of taxes and spending and make sure they all target the good policy, at their benefit and at the benefit of others. Of course, this is not an easy task, but it is a task that would make the EU fiscal rules ever more "intelligent".

Having common objectives within Europe 2020, it could be thought of having common tools to reach them: a higher EU budget? Or an authentic but modified [golden rule of public finance](#) where some expenditures proved to be productive, with the agreement of all EU member states, would be left out of the scope of binding rules? That is not the hot topic of the day, but had it been before the SGP reform of 2005 that the

stability of the Eurozone might not have been at stake the way it has been since the worldwide crisis.

I thank you for your attention.

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# Le Sommet du G20 de Cannes : chronique d'une déception annoncée ?

par [Jérôme Creel](#) et [Francesco Saraceno](#)

(une première version de ce point de vue est parue sur le site [lemonde.fr](#), [ici](#))

Trop longue, trop technique, la [déclaration finale](#) d'action collective du Sommet du G20 à Cannes montre qu'aucune vision claire et partagée des turbulences économiques et financières qui secouent l'économie mondiale ne s'est dégagée lors du Sommet. Et Sénèque de nous rappeler que la déception aurait été moins pénible si l'on ne s'était pas d'avance promis le succès.

Après les annonces officielles, la déception était palpable à l'issue d'un sommet du G20 au cours duquel aucune avancée significative n'a été réalisée pour les dossiers les plus importants du moment, la relance de la croissance notamment. Les questions agricoles et financières, cruciales elles aussi, n'ont donné lieu qu'à des déclarations d'intention, avec le rappel pour ces dernières des engagements pris... en 2008 ! Cette déception doit être cependant relativisée car le G20 est principalement une instance de discussion plutôt que de décision. Que reste-t-il en effet des engagements pris par le

G20 de Londres d'avril 2009 en pleine récession mondiale ? Les politiques budgétaires expansionnistes ? Oubliées, sous l'effet de l'endettement public qu'elles ont produit, endettement qui, soit dit en passant, était parfaitement prévisible. La régulation financière renforcée ? Ressassée, mais point encore mise en œuvre, malgré la détermination affichée à Paris les 14 et 15 octobre 2011. La volonté d'échapper au protectionnisme ? A peine mentionnée, elle n'aura d'ailleurs pas empêché la constitution de 36 cas de [différends commerciaux](#) portés auprès de l'OMC, dont 14 impliquant la Chine, l'UE et/ou les Etats-Unis. Il ne reste plus que les politiques monétaires, « expansionnistes aussi longtemps que nécessaire » dans les déclarations préalables au Sommet. Le sort du système monétaire international ne dépend-il que du bon vouloir des banquiers centraux, indépendants de surcroît ?

La réunion a en outre été perturbée par la crise qui secoue la zone euro, qui a quasiment effacé de l'agenda des dossiers importants comme cette réapparition du protectionnisme, reléguée aux paragraphes 65 à 68 d'un document en comportant 95. A Cannes les pays émergents et les Etats-Unis ont été spectateurs d'un drame qui se déroulait entre Paris, Berlin, Rome et Athènes.

Cette crise qui secoue la zone euro découle de l'hétérogénéité des pays qui la constituent, comme la crise financière déclenchée en 2007 fut causée, outre l'absence de réglementation financière, par l'hétérogénéité croissante entre pays mercantiles et pays supposés être les eldorados de l'investissement, d'un côté la Chine et l'Allemagne, de l'autre, les Etats-Unis et l'Irlande. L'hétérogénéité européenne, l'une des [quatre déficiences de la zone euro](#), a conduit les pays disposant d'un excédent de leur balance des comptes courants à financer les pays en situation de déficit. Seule et avec la priorité donnée à la lutte contre l'inflation que le Traité de l'UE lui a imposée, la BCE est impuissante à

renforcer la convergence au sein de la zone euro. Cependant, à court terme elle peut mettre fin à la crise de l'euro en acceptant d'apporter une garantie intégrale sur les dettes publiques de la zone euro (voir [\[1\]](#), [\[2\]](#) ou [\[3\]](#)), et en augmentant sensiblement ses [acquisitions de titres de dette publique européenne](#). Ceci préserverait la stabilité financière européenne et engendrerait peut-être des anticipations inflationnistes, contribuant ainsi à sortir l'économie européenne de la [trappe à liquidité](#) dans laquelle elle se trouve depuis le début de la crise financière. Notons que malgré son activisme, la Réserve fédérale américaine n'a pas jusque-là réussi à engendrer de telles anticipations et reste engluée dans une même trappe à liquidités.

A plus longue échéance, il convient de revoir la gouvernance économique européenne. L'usage actif des politiques économiques aux Etats-Unis et en Chine contraste avec la prudence affichée par la BCE et avec les réticences européennes à mener des politiques budgétaires expansionnistes, et plus généralement avec le choix de bâtir la gouvernance économique européenne sur le refus des politiques discrétionnaires. Ainsi serait-il souhaitable que, tout en préservant son indépendance, la BCE puisse poursuivre un [double mandat](#) d'inflation et de croissance, et que les [règles qui disciplinent](#) la politique budgétaire soient plus « intelligentes » et flexibles.

Donner aux autorités de politique économique la possibilité de mener des politiques discrétionnaires ne doit pas faire oublier le risque de manque de concertation, qui peut amener le Congrès américain à menacer unilatéralement de taxes compensatoires les marchandises importées de pays dont la monnaie serait sous-évaluée. Une telle volonté fait resurgir le spectre du protectionnisme, et les pays du G20 devraient envisager un mécanisme pour coordonner les politiques, et éviter ainsi des guerres commerciales plus ou moins explicitement déclarées.

En outre, une guerre des monnaies ne semble pas une façon efficace de protéger nos économies : la sous- ou surévaluation d'une monnaie est un concept complexe à appliquer, et l'incidence de la valeur d'une devise sur les exportations et importations est rendue très incertaine par la fragmentation internationale de la production de marchandises et de services. A une politique défensive, il vaut donc sans aucun doute mieux substituer une [politique industrielle active](#), permettant de tirer profit de nouvelles niches technologiques créatrices d'activités et d'emplois.

Au final, pour que les mots aient un sens concret – pour « engendrer la confiance et la croissance » dans les économies avancées et « soutenir la croissance en contenant les pressions inflationnistes » dans les économies émergentes ([Communiqué du G20](#), Paris, 14-15 octobre 2011) -, il faut remettre en cause la « contagion des [contractions budgétaires](#) » qui secoue aujourd'hui la zone euro et, plutôt qu'une phase supplémentaire de rigueur, mettre à l'ordre du jour des plans de relance dans les économies avancées pendant que les taux d'intérêt sont encore bas. Ces plans doivent être ciblés pour engendrer de la croissance et ne pas mettre en péril la solvabilité des finances publiques : il faut donc favoriser les investissements publics. Ils doivent être coordonnés entre eux pour en maximiser l'impact global, mais aussi avec l'action des banques centrales, afin que celles-ci les accompagnent par le maintien de taux d'intérêt bas. Le Sommet de novembre 2011 arrivait à point nommé pour qu'une telle concertation émerge. Il n'en fut malheureusement rien.

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# The G20 Summit in Cannes: Chronicle of a Disappointment Foretold?

By [Jérôme Creel](#) and [Francesco Saraceno](#)

Too long and too technical, the [final declaration](#) of collective action of the G20 Summit in Cannes shows that no clear and shared vision of the economic and financial turmoil that is rocking the global economy has emerged at the Summit. And as Seneca reminds us, the disappointment would have been less painful if success had not been promised in advance.

According to the official announcements, the disappointment was palpable at the end of a G20 summit in which no significant progress was achieved – on the most important issues of the moment, the revival of growth in particular. The crucial issues of agriculture and finance gave rise simply to declarations of intent, with a reminder of the commitments made on these ... in 2008! The disappointment must be kept in perspective, however, as the G20 is primarily a forum for discussion rather than for decisions. Indeed, what remains of the commitments made in April 2009 by the G20 in London, mired in global recession? The expansionary fiscal policies? Forgotten, as a result of the public debt that they have produced – debt, by the way, that was perfectly predictable. Strengthened financial regulation? Repeatedly trotted out, but still not implemented, despite the determination displayed in Paris on 14 and 15 October 2011. The desire to avoid protectionism? Barely mentioned, nor did this succeed in preventing the outbreak of 36 [trade disputes](#) brought before the WTO, including 14 involving China, the EU and / or the United States. All that remains is a monetary policy that is “expansionary as long as necessary”, in the words of the pre-Summit statements. So does the fate of the international

monetary system depend simply on the good will of the central bankers, independent as they are?

The meeting was also troubled by the crisis hitting the euro zone, which virtually forced off the agenda such important issues as the resurgence of protectionism, which was relegated to paragraphs 65 to 68 of a 95-paragraph document. At Cannes, the emerging economies and the US were spectators of a drama unfolding between Paris, Berlin, Rome and Athens.

The crisis hitting the euro zone is a result of the heterogeneity of its constituent countries, much as the financial crisis triggered in 2007 was a result not just of a lack of financial regulation but also of the increasing heterogeneity between mercantile countries and countries presumed to be the El Dorados of investment, on the one hand China and Germany, and on the other, the United States and Ireland. This European heterogeneity, one of four deficiencies of the euro zone, has led countries with a surplus in their current accounts to finance countries running a deficit. Alone, and with its priority on the fight against inflation imposed by the Treaty of the EU, the ECB is unable to promote convergence within the euro zone. However, in the short term it can end the crisis in the euro by agreeing to provide full coverage of public debts in the euro zone (see [\[1\]](#), [\[2\]](#) or [\[3\]](#)), and by significantly increasing its [purchases of government debt in Europe](#). This would maintain European financial stability and perhaps generate inflationary expectations, thereby helping to lift Europe's economy out of the [liquidity trap](#) in which it has been mired since the beginning of the financial crisis. Note that despite its activism, the US Federal Reserve has not so far managed to create such expectations and remains caught in the same kind of liquidity trap.

In the longer term, it is necessary to review European economic governance. The active use of economic policy in the United States and China contrasts with the caution displayed

by the ECB and with the European reluctance to pursue expansionary fiscal policies, and more generally with the decision to build European economic governance on a refusal of discretionary policies. It would be desirable for the ECB, while preserving its independence, to be able to pursue a [dual mandate](#) on inflation and growth, and for the [rules that discipline](#) fiscal policy to be “smarter” and more flexible.

Giving the economic policy authorities an opportunity to implement discretionary policies should not mean forgetting about the risks posed by the absence of a coordinated approach, which may lead the US Congress to threaten unilateral compensatory taxes on goods imported from countries whose currency is undervalued. This move is evoking the specter of protectionism, and the G20 countries should consider a mechanism to coordinate policy so as to avoid the trade wars that are already being more or less explicitly declared.

Furthermore, a currency war does not seem to be an effective way to protect our economies: the under-or overvaluation of a currency is a complex concept to apply, and the impact of a currency's value on exports and imports is made very uncertain by the international fragmentation that characterizes the production of goods and services. Rather than employing a defensive policy, it is definitely better to substitute an [active industrial policy](#) to take advantage of new technological niches that create business and jobs.

Finally, for words to have real meaning – to “build confidence and support growth” in the advanced economies and “support growth” while “containing inflationary pressures” in the emerging economies ([G20 Communiqué](#), Paris, 14-15 October 2011) – we must challenge the “contagion of [fiscal contraction](#)” that is now shaking the euro area and, rather than an additional phase of rigor, put recovery plans on the agenda in the advanced economies while interest rates are still low. These plans must be targeted in order to generate growth and not

jeopardize the solvency of public finances: it is thus necessary to encourage public investment. To maximize their overall impact, these plans need to be coordinated, including with the actions of the central banks, so that the latter can support them by maintaining low interest rates. The Summit in November 2011 was very timely for this kind of coordinated approach to emerge. Unfortunately, it didn't.

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# Retrouver la confiance dans l'euro : trois urgences

par [Jérôme Creel](#)

Dans une communication devant la Commission ECON du Parlement européen, lundi 17 octobre 2011, à propos de la gouvernance économique européenne, trois urgences sont recensées pour sauver l'euro et améliorer sa gestion.

Sauver l'euro sans délai supplémentaire est la priorité : pour cela, il faut doter suffisamment le FESF et requérir de la BCE qu'elle poursuive ses interventions sur les marchés d'obligations publiques, afin que se résorbe l'écart entre les taux longs des pays périphériques et ceux des pays du coeur de la zone euro (Allemagne, France, Pays-Bas), où les seconds baissent, au bénéfice donc de l'Allemagne, de la France et des Pays-Bas, tandis que les premiers augmentent et font peser un lourd fardeau sur les finances publiques de la Grèce, certes, mais aussi du Portugal et de l'Espagne.

Deuxièmement, il faut appliquer au plus vite les nouvelles dispositions législatives modifiant le Pacte de Stabilité et

de Croissance et créant un dispositif symétrique de surveillance des déséquilibres macroéconomiques. Cette seconde priorité est urgente, elle aussi : elle doit permettre à la zone euro d'échapper à l'avenir à une nouvelle crise, du moins de s'en prémunir par des instruments et une surveillance adéquats. Dans ce cadre, le Parlement européen est invité à "contrôler les contrôleurs" afin que la confiance des Européens dans leurs institutions s'améliore sensiblement.

Enfin, il faut s'assurer du bon fonctionnement de la gouvernance européenne. Rien n'est perdu, des règles intelligentes existent : elles doivent être appliquées après concertation. Le ciblage d'inflation pour le versant monétaire et l'authentique règle d'or des finances publiques pour le versant budgétaire doivent émerger.

Communication devant la Commission ECON, Parlement européen,  
17 octobre 2011

Without trust, no thrust: some reflections on the new EU agenda for policy reforms (first version [here](#))

Dear Madame Chair,

Dear Honorable Members,

After almost two years of European turmoil related to the bad management of public finances in a few Eurozone countries, and more than four years after a deep worldwide crisis, time is certainly ripe for reaching European solutions to cure the crisis. Two emergencies are at stake: first, stopping distrust's contagion vis-à-vis Eurozone members; second, stopping misbehaviors' contagion among Eurozone members in the future. By the way, this second emergency certainly necessitates a separation between two periods: the short run and the longer run.

1. Short run emergency 1: improving trust in the Euro

In order to cope with the first emergency, Eurozone countries need a more automatic solidarity mechanism. There have been different options discussed and implemented so far at the Eurozone level, from the EFSF (then future ESM) to Eurobonds, or the intervention of the ECB on secondary markets. They all need to be enforced and implemented as soon as possible without limitations, otherwise discrepancies in long-term yields on public bonds will continue to grow across Eurozone members, at the expense of countries with twin deficits and at the benefit of countries which are closer to twin balance. Without strong automatic interventions, Eurozone countries take the risk of feeding distrust in their ability to support the Euro. The consequence might be distrust in the future of the Euro, distrust in the future of the EU project.

## 2. Short run emergency 2: enforcing the “6-pack” with improvement in its democratic content

In order to cope with the second emergency, the European Commission, the President H. van Rompuy and the European Parliament have dealt with the EU governance of the near future through a “6-pack” of legislative amendments which were adopted on 25 September 2011.

A major step has been made in the good direction: macro imbalances are no longer automatically related to deficits as they may also refer to surpluses; and a macro imbalance can be considered “excessive” only to the extent that it “jeopardizes or risks jeopardizing the proper functioning of the EMU”. This is clear understanding that provided Eurozone countries are primarily partners rather than competitors, their trade links shall not be automatically confounded with risky imbalances for they do not impinge on the common currency, the Euro.

The “6-pack” also deals with the better enforcement of the Stability and Growth Pact, introducing earlier sanctions, and a more comprehensive fiscal surveillance framework. This is certainly necessary to make sure that the risk of moral hazard

in the Eurozone is reduced to a minimum. However, the overall '6-pack' must pass beforehand criteria for the effectiveness of a fiscal rule.

There have been different ways to assess reform proposals for economic policies. A well-known and convenient one is a set of criteria first developed by George Kopits and Steven Symansky at a time when both were working at the IMF. According to them, a fiscal rule is effective if it is well-defined, transparent, simple, flexible, adequate relative to goal, enforceable, consistent and efficient. In an amendment by the European Parliament related to macro imbalances, one can read that the indicators in the scoreboard must be relevant, practical, simple, measurable and available; moreover, flexibility is advocated in the assessment of macro imbalances. The Kopits-Symansky criteria are thus still relevant, and only their seventh criterion, consistency, seems to have been forgotten from the list. Does it reveal that through the current reform proposals, no one wishes to deal with monetary policy, which consistency with fiscal policies might well be assessed, and the other way round?

I have written elsewhere my own views on Kopits and Symansky's set of criteria ([Creel, 2003](#); [Creel and Saraceno, 2010](#)), but I think I need to insist on the simplicity one. I fear the existence of a so-called "simplicity" criterion when complex problems are arising. For instance, a strong public deficit may be due to 'bad times' (recession, slow GDP growth), interest rates hikes, wrong policies, a non-existing tax system, etc. A simple rule cannot handle the multiplicity of the causes for a deficit. I also fear that such a criterion is simply disrespectful towards the people: well-informed people can certainly approve complex rules if they believe that those who implement them target the common interest.

It leads me to propose that the "simplicity" criterion is changed into a "democratic" criterion. That change would not be substantial as regards Kopits and Symansky's justification

of their criterion: simplicity is required, they say, to enhance the appeal of the rule to the legislature and to the public. Changing “simplicity” into “democratic” would thus be consistent with their view. It would add two advantages. First, there would be no need to target simple or simplistic rules, if more complex ones are required. Second, to enhance their appeal to the public, these rules should be endorsed and monitored by a Parliament: as their members are the representatives of the public, the latter would be fully informed of the nature and properties of the rule.

What would be the main consequences of assessing reform proposals through the lens of democratic content in the current context? First, the now-complex setting of fiscal rules in the EU, under the amendments of 25 September 2011, is well-defined but it is no longer simple. That should not lead us to assume that these rules will not be efficient. Second, if all European authorities, including the European Parliament, approved a stricter surveillance mechanism for fiscal policies, macro imbalances, and employment guidelines, control over the misbehaving countries should be shared with all these authorities, hence also including the European Parliament. The implication of the latter, with that of the European Council, would enhance the appropriation of rules by the public, and the trust of the public in their institutions. Third, another consequence would be that automaticity in sanctions should not be an option for automaticity is contradictory with the essence of a democracy: contradictory debates.

Are the current reform proposals respecting the “democratic” criterion? The implication of the EP in these reforms already calls for a positive answer. Nevertheless, the implication of the EP in “checking the checkers” is necessary to achieve a definite positive answer. This implication might be very productive in reassessing the effectiveness of the policies which are undertaken in a country where suspicion of

misbehavior is developing. The implication of the Economic Dialogue and the European Semester should also be used to improve trust in the EU institutions and the Eurozone governments, with due respect to the subsidiarity principle. Sharing information, analyses, data should be viewed by all partners as a way to achieve cooperation, keeping in mind that John Nash showed through his solutions that cooperative equilibria always lead to a win-win situation.

“Checking the checkers”, as I mentioned above, involves an informed assessment of the effectiveness of fiscal policies. Such an assessment is not dealt with in the current Stability and Growth Pact. During the procedure of fiscal surveillance, and before sanctioning a country, it is of the highest priority to gauge the effectiveness of a fiscal policy which has led to higher deficits and debts.

Discussions about fiscal policies are usually very pessimistic nowadays, as far as their effectiveness is concerned, but those endorsing these discussions take the risk that the people have finally no trust in their governments, for they are said to follow the wrong policies, and in the European institutions that are not able to stop these policies.

It may be useful to recall (once again?) that a consensus exists in the economic literature about the sign of the fiscal multiplier: it is [positive](#). And because of that, the Chinese, US, German, French, etc. governments decided to increase their deficits through discretionary policies during the worldwide crisis: these governments were conscious that their policies were helpful. Why shouldn't they during other 'bad times'? Why should we all think that a contagion of fiscal restrictions in the EU will help us thrust again? Good policymaking requires that policies are contingent to the economic situation (GDP growth, inflation rate, level of unemployment, etc.).

In my view, at this stage, there are two important prerequisites to a rapid improvement in the EU governance, and

I do not think they require a new Treaty. We all know that at the ECB and beyond, some argue that political pressures led this institution to buy public bonds, in contrast, they add, with the EU Treaty. Its independence would have been at stake. For this reason, the first prerequisite is in recalling the independence and mission of the ECB. The ECB is a young institution and it needs confidence in itself, as a teenager does. Once definitely adult, after full confidence is reached, the ECB will not fear coordination or cooperation with governments and the EP that fully respect its independence but may wish to improve the consistency of their policies with its.

The second prerequisite is in recalling the objectives of the EU, growth and stability, and in admitting that there is not a single way to achieve these objectives, for countries are still so different within the EU, even within the Eurozone. The 'one size fits all' is no longer an option, hence the necessity to complement fiscal rules with an assessment of macro imbalances and with regular, transparent, and democratically-controlled assessments of the relevance of the underlying analyses by governments on the one hand, and controllers on the other. There is a strong role for the EP in acknowledging and managing this no 'one size fits all' way of dealing with fiscal rules.

### 3. Longer run emergency 2: more intelligent rules?

In the longer run, if improvements by the ECB in cooperating with governments have not materialized, a binding commitment to follow a cooperative behavior could be included in the statutes of the ECB. A change in its statutes might also be considered, with a view to adopting, for instance, a [dual mandate](#) similar to that of the Fed. That way, it would be clear that "if 5% inflation would have (Central bankers') hair on fire, so should 9% unemployment" (Ch. Evans, 2011). Another possibility would be to urge the ECB to implement full inflation targeting. That would require the ECB to make public

its forecasts and minutes of decisions, thus enhancing information and potentially influencing the private sector.

Lastly, the most important debate on fiscal policymaking is in wondering what governments are doing with tax and spending, and how they finance them. The European Semester and the monitoring of indicators of macro imbalances certainly go in the good direction, but rather than a global view on the evolution of deficits and debts, Eurozone countries should think about circumscribing the good and bad parts of taxes and spending and make sure they all target the good policy, at their benefit and at the benefit of others. Of course, this is not an easy task, but it is a task that would make the EU fiscal rules ever more “intelligent”.

Having common objectives within Europe 2020, it could be thought of having common tools to reach them: a higher EU budget? Or an authentic but modified [golden rule of public finance](#) where some expenditures proved to be productive, with the agreement of all EU member states, would be left out of the scope of binding rules? That is not the hot topic of the day, but had it been before the SGP reform of 2005 that the stability of the Eurozone might not have been at stake the way it has been since the worldwide crisis.

I thank you for your attention.

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## The dual mandate, the Fed and

# the ECB

By [Jérôme Creel](#) and [Francesco Saraceno](#)

Since 21 September 2011, the US Federal Reserve has launched [Operation Twist](#) to reallocate its balance sheet to reduce long-term interest rates. This American activism contrasts once again with the caution displayed by the European Central Bank. On 7 September 2011, a US central banker declared that an unemployment rate of 9% in the US was as serious as an inflation rate of 5% would be. He concluded that US monetary policy needed to make the fight against unemployment a priority. We believe that this should be even more the case for the euro zone economy, which leads us to re-consider the mandate of the ECB.

Through Operation Twist, the Federal Reserve will be trading in 400 billion dollars worth of short-term government bonds for long-dated Treasuries. The Fed's strategy of reallocating its balance sheet is aimed at reducing the long-term interest rate. This approach is consistent in spirit with the recent remarks of the President of the Chicago Fed.

The [speech](#) by Charles Evans on 7 September is worthy of our attention for at least two reasons. First, it indicates that today, even though the United States has slipped into crisis, with persistent unemployment and a new recession threatening, attention is being paid too much to inflation and public deficits rather than to the kind of action that would counter the crisis by conducting a policy commensurate with its scale. Using a target-function of the Fed and Okun's law, Charles Evans said that an unemployment rate of 9% of the US workforce would be as worrying as an inflation rate of 5 %: the 3-point gap with each of the two targets – a “natural” rate of unemployment of 6% (which he calls a conservative assumption, as the unemployment rate should fall if the United States were to recover the 8 growth points lost during the crisis) or an inflation rate of 2% (again, a conservative assumption) – is

very comparable in a country like the United States that does not impose any hierarchy between the targets of inflation and of growth (more precisely, between inflation and maximum employment, see here). Evans noted that the unemployment rate in the United States has actually come to differ by 3 points from its target, but inflation hasn't ... and he then observes: "So, if 5% inflation would have our hair on fire, so should 9% unemployment." This led Evans to consider that the inflation target, legitimate in the medium term, is not the priority, and therefore that an expansionary monetary policy should be accentuated by conventional or unconventional means, even at the cost of a short-term boom in prices (which is unlikely in an economy in crisis).

The second factor that leads us to take an interest in this discourse is the rapprochement, or rather the great difference, with European policies. Indeed, in reading these words and observing the actions of the Fed, the contrast with the discourse and actions of the ECB is striking. The [ECB's difficulties](#) in pursuing a policy suited to the state of the euro zone result from an overly orthodox approach to monetary policy, with all due respect to certain members who have resigned from the ECB. This is rooted in the fundamental [Treaty on the European Union](#), where priority is given to inflation rather than growth (Articles 119 par. 2 and 127 par. 1). This leads the ECB to neglect the target of growth, to minimize it or, when circumstances ultimately so require (in a period of recession or slow growth) to pursue it in a non-transparent and thus ineffective way. We only have to look at the new [joint effort](#), between in particular the Federal Reserve and the ECB, to ensure dollar liquidity for Europe's banks, without any change in the key rate. The repeated procrastinations in European monetary policy from 2007 to 2008 – which were of course in support of the private banks, but, because of rising commodity prices, over which the ECB has no control, did not give any impetus to active monetary policy to counter the deterioration in activity – should not be repeated today. [Consumer price inflation in the euro zone in July 2011](#)

is close to the medium-term target imposed by the ECB (2.5%), and it is being pushed upwards by rising raw materials prices (energy, coffee, tea, cocoa), by their impact on the prices of certain services (transport), and by the products used as the basis for the taxes that governments are wont to raise to try to restore a semblance of balance in their public finances (tobacco). Ultimately, in July 2011 the rate of inflation excluding energy and processed food products came to 1.5%. The unemployment rate in the euro zone is, for its part, on the order of 10% of the workforce. To paraphrase Charles Evans, one can say that while 5% inflation would certainly raise the hair on the heads of Europe's central bankers – and fortunately we are far from this – this should also be the case when the unemployment rate reaches 10% of the workforce! The big difference between a Fed official's expansionist drive and the ECB's policy of prudence in comparable economic circumstances (the gaps between the inflation and unemployment rates from their respective targets are more or less the same) also finds a striking parallel in the fiscal policy speeches and actions on either side of the Atlantic. While the European debates almost invariably concern the imposition of additional constraints on the fiscal policies of the euro zone countries (the adoption of "golden rules" in Germany and Spain; the litany of fiscal austerity programs, the latest being in Italy), the need in the euro zone to be able to rely on a strong economic policy instrument comes down solely to the ECB. But this is not necessarily the case in the United States, where the federal government has proposed a new plan to revive the economy in the short term, together with fiscal consolidation over the next 10 years. The speech by Charles Evans should be given by Jean-Claude Trichet, but we are a long way from that. Standing firmly on the impeccable character of the ECB's past actions (see the nuanced critique by [Paul Krugman](#)), the ECB Chairman, when he does talk, does not seem to take the measure of its responsibility for the future performance of its current policies. If the ECB fails to take the lead in boosting activity in a period of low

inflation, then the governance of the euro needs to be reviewed. Two critical choices for the future are posed. The euro could disappear, which would not take place without serious difficulties (see the note from Jean Pisani-Ferry about Greece, whose conclusions could be extended to all the euro zone countries, including Germany) and must be firmly rejected. The status of the system of euro zone central banks could be amended to give equal dignity to the goals of economic growth and inflation, along the lines of the Fed, whose performance has made it possible to minimize the fears of an explosion of inflation.