第7回　国際通貨論　I

International Monetary Study I

Economic Policies in the Euro Area (2)

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The Fiscal policy in the euro area 財政政策

1. Fiscal sovereignty of EU Member States

Fiscal policy is basically a matter of each member state, while the ECB carries out a single monetary policy.

→ The necessity of policy mix at the EU level requires the coordination of fiscal policy (restraints on national budgets).

(a) The Council formulates "broad economic policy guidelines" (BEPG) for member states every year.

(b) According to the Stability and Growth Pact, member states present a stability program (mid-term fiscal stabilization program and economic outlook).

(c) The Council monitors member's economic policy, and give recommendations for correction, if it deviates from BEPG.

(1) The Stability and Growth Pact 安定と成長協定

[see Figure 2.2]

>In essence, it is a continuation of the economic convergence criteria to keep the fiscal deficit within 3% and the government debt below 60% of GDP.

>Background: Germany wanted stability to maintain the euro as strong as DM ("Der Euro stark wie die Mark"), while France emphasized on the economic growth.

→ a mid-term objective to turn the fiscal deficit "close to balance or in surplus" under normal economic cycles

→ a limited exception in judging "excessive deficit" (e.g. when GDP drops more than 2%)

→ a sanction against the continuous breach of the SPG

(2) The Operation of the Stability and Growth Pact

>Due to the economic decline, the fiscal deficits of major member states have widened and breached SGP.

GDP (%)	2001	2002	2003	2004
France	2.1	1.2	0.2	1.7
Germany	0.8	0.2	-0.1	1.5
Euro area 12 states	1.6	0.9	0.4	1.7

Budget balance as % of GDP source spring economic forecast 2004				
France	-1.5	-3.2	-4.1	-3.7
Germany	-2.8	-3.5	-3.9	-3.6
Euro area 12 states	-1.6	-2.3	-2.7	-2.7

(3) Assessment of the Stability and Growth Pact

>Critical view: SGP deprives Member States of the possibility of monetary and fiscal policy mix (the lack of automatic fiscal stabilizer) → SGP is a too tight corset.

>European Commission's view: Budgetary discipline is the path to a sustained economic growth without inflation (supply and demand gap 0.5-1.0% in the past 30 years)

Importance of achieving a budget position 'close to balance or in surplus' (source: Public Finances in EMU 2003) →

In the short run: room for automatic stabilizer to operate

In the medium run: room for tax cut or divert expenditure for productive items like R & D

In the long run: compliance with budgetary needs of aging populations (pensions and health care)

2. EU Budget and Income Transfer Function

EU予算と所得移転の機能

Features of EU budget

>Small size: only 1.10% of EU's GNP in 2002

>Both revenues and expenditures are limited to a few items

>Unequal net contributions among Member States: Germany is the largest net contributor. France and Italy's payment and receipt are balanced.

>No EU-wide function of income transfer: the Community has no authority for direct tax or social security contribution. → Income transfer is limited within each Member State.

EU Budget in 2001 (unit: billion euro)

Revenue			Expenditure (appropriations for commitments)		
Agricultural duty	1.7	2%	Agriculture	44.5	46%
Customs duty	14.2	15%	Structural operations	32.7	34%
Value Added Tax	36.6	38%	Internal policies	6.3	6%
Fourth Resource (GNP contributions)	41.1	43%	External Policies	4.7	5%
Others	2.0	2%	Administration	4.8	5%
			Others	4.2	4%
Total	95.7	100%	Total	97.2	100%

(source: homepage European Commission/Budget)

3. Importance of structural policies

Structural policies (micro-economic policies in production and labor markets) are left to the discretion of Member States. *Key for the economic revival!* 構造政策の重要性

>Structural and fiscal policies are complementary each other: deregulation → new industries → new jobs → more tax revenue and less social security outlay

(a) Excessive welfare: little incentive for the unemployed to seek jobs

(b) High non-wage costs hurt industrial competitiveness.

(c) Excessive labor market regulation by government and trade unions: industries will look for new locations.

(d) Excessive regulation of industries: lack of competition and decline of productivities