

Course Syllabus

Course	The Stability and Growth Pact and the Fiscal Compact
Lecturer(s)	Prof. Lucio Pench
Course Description	
Primary References and Additional Materials	
Course Objectives	
Prerequisite(s)	Attendance of the preliminary courses (if required in the admission letter)
Teaching Method(s)	Lectures and student participation.
Assessment Method(s) and Grading Policy	

EXTENDED COURSE PLAN & LECTURE-SPECIFIC REFERENCES

<p>Lecture 1 <i>Lecture</i></p>	<p><i>Topic</i></p>	<p>1. Fiscal rules: definition and rationale, and the case of a monetary union</p> <ul style="list-style-type: none"> • General definition and typology of fiscal rules • Rationale for fiscal rules in general: optimal fiscal policy vs biased policy-making: <ul style="list-style-type: none"> ○ The intertemporal budget constraint of the government ○ Optimal fiscal policy: the tax-smoothing model and its limitations ○ Biased policy-making: deficit bias and its determinants • Rationale for fiscal rules in a monetary union: <ul style="list-style-type: none"> ○ Risk of 'monetary (ex post) bail-out' ○ Risk of fiscal (ex post) bail out ○ Risk of 'free riding'
	<p><i>References</i></p>	<p>Alesina, A. and A. Passalacqua (2015), The Political Economy of Government Debt. (Available at https://scholar.harvard.edu/files/alesina/.../political_economy_of_gov_debt_april_2_015.pdf)</p> <p>Barro, Robert J. (1979): On the Determination of the Public Debt, <i>Journal of Political Economy</i>, Vol. 87, No. 5, Part 1, pp. 940-971.</p> <p>De Grauwe, P. (2016) The Economics of Monetary Union, Oxford, Oxford University Press.</p> <p>Escolano, J. and V. Gaspar (2016), Optimal Debt Policy Under Asymmetric Risk, <i>IMF Working Paper</i>, No. 16/72.</p> <p>Kopits G. and S. Symansky (1998), Fiscal Policy Rules, <i>IMF Occasional Paper</i>, No.162.</p>
<p>Lecture 2</p>	<p><i>Topic</i></p>	<p>2. The evolution of fiscal rules in EMU</p> <p>Early evolution of fiscal rules in EMU:</p> <ul style="list-style-type: none"> • Fiscal policy and fiscal rules in the preparations for EMU: the Delors Report • Fiscal policy and fiscal rules and the founding of EMU: the Maastricht Treaty • Fiscal Policy and fiscal rules and the start of EMU: the Stability and Growth Pact (SGP) • The first crisis of the SGP and the reform of 2005 • The Great Recession and the reform of European economic and fiscal governance
	<p><i>References</i></p>	

Bofinger, P., B. Eichengreen, S. Eijffinger, S. and C. Hefeker (2003), Should the European Stability and Growth Pact be Changed?, *Intereconomics*.

Brunila, A., M. Buti and D. Franco (eds), *The Stability and Growth Pact: The Architecture of Fiscal Policy in EMU*, Basingstoke, Palgrave Macmillan, 2001.

Buti, M., D. Franco and S. Eijffinger (2003), Revisiting the Stability and Growth Pact: Grand Design or Internal adjustment? *European Economy Economic Papers*, No. 180. (Available at http://ec.europa.eu/economy_finance/publications/pages/publication_summary11046_en.htm)

Buti, M., D. Franco and S. Eijffinger (2005), The Stability Pact Pains: A Forward-Looking Assessment of the Reform Debate, CentER Discussion Paper No. 2005-101 (Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=810264.)

Committee for the Study of Monetary Union (1989), *Report on Economic and Monetary Union in the European Community* (Delors Report), Luxembourg, Office for the Publications of the European Communities. (Available at http://ec.europa.eu/economy_finance/publications/pages/publication6161_en.pdf)

European Commission (2005), 'The Debate on the EU Fiscal Framework' in Public Finances in EMU, *European Economy*, No3/2005 (available at http://ec.europa.eu/economy_finance/publications/publication421_en.pdf)

European Commission (2013), "Building a Strengthened Fiscal Framework in the European Union: A Guide to the Stability and Growth Pact", *Occasional Papers 150* (available at http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp150_en.pdf)

van den Noord, P., B. Döhring, S. Langedijk, J. Nogueira Martins, L. R. Pench, H. Temprano-Arroyo and M. Thiel (2008), The Evolution of Economic Governance in EMU, *The Evolution of Economic Governance in EMU*, *European Economy Economic Papers*, No. 368. (Available at http://ec.europa.eu/economy_finance/publications/pages/publication_summary12748_en.htm)

Fischer, J., L. Jonung and M. Larch (2006), 101 Proposals to reform the Stability and Growth Pact. Why so many? A Survey, *European Economy Economic Papers*, No. 267. (Available at http://ec.europa.eu/economy_finance/publications/pages/publication833_en.pdf)

Italianer, A. (1993), Mastering Maastricht: EMU Issues and How They Were Settled, in Gretscham, K. (ed.), *Economic and Monetary Union: Implications for National Policy Makers*, Maastricht: Institute of Public Administration.

A. Lamfalussy (1989), Macro-coordination of Fiscal Policies in Economic and Monetary Union in Europe, in Committee for the Study of Monetary Union, *Report*

		<p>on Economic and Monetary Union in the European Community. <i>Collection of Papers Submitted to the Committee for the Study of Economic and Monetary Union</i>, Luxembourg, Office for the Publications of the European Communities. (Available at http://aei.pitt.edu/1008/1/monetary_delors_collected_papers.pdf)</p>
Lecture 3	Topic	<p>3. Fiscal rules in EMU: the current set-up</p> <ul style="list-style-type: none"> • The 'Six-Pack', 'Two-Pack', and 'Fiscal Compact' legislation: General overview • The rules of the reformed SGP: 'preventive arm' • The rules reformed SGP: 'corrective arm' (Excessive Deficit Procedure) • The cycle of budgetary surveillance for the Euro Area • The interaction the EU and national fiscal frameworks: The Directive on national fiscal frameworks, the Fiscal Compact and the role of independent fiscal institutions
	References	<p>European Commission (2017), <i>Vademecum on the Stability and Growth Pact – 2017 Edition</i>, <i>European Economy Institutional Papers</i>, No. 52. (Available at https://ec.europa.eu/info/sites/info/files/ip052_en_0.pdf)</p> <p>Calmfors L., and S. Wren-Lewis (2011), <i>What Should Fiscal Councils do?</i>, <i>Economic Policy</i>, CEPR & CES & MSH, vol. 26(68), pp. 649-695.</p> <p>European Commission (2017), <i>The Fiscal Compact: Taking Stock</i>, Communication from the Commission, C(2017) 1200 final. (Available at https://ec.europa.eu/info/sites/info/files/1_en_act_part1_v3_0.pdf)</p> <p>Jankovics, L. and Sherwood (2017) <i>Independent Fiscal Institutions in the EU Member States. The Early Years</i>. <i>European Economy Discussion Papers</i>, No. 67. (Available at https://ec.europa.eu/info/sites/info/files/dp_067_en.pdf)</p> <p>Treaty on Stability, Coordination and Governance in the Economic and Monetary Union</p>
Lecture 4	Topic	<p>4. Possible scenarios for the future evolution of the architecture of fiscal policy in EMU</p> <ul style="list-style-type: none"> • An assessment of the working of the overhauled fiscal framework • Critical issues: balancing stability and growth (with constrained monetary policy) • Critical issues: enforcement and market discipline • Ways forward: federalism or decentralisation?
	References	

Allard, C., C.J. Bluedorn, F. Bornhorst and D. Furceri (2015) Lessons from the crisis: Minimal

Elements for a Fiscal Union in the Euro Area, in C. Cottarelli and M. Guergueil (eds.) *Designing a European Fiscal Union. Lessons from the Experience of Fiscal Federations*, London and New York, Routledge.

Carnot, N., 2014, Evaluating Fiscal Policy. A Rule of Thumb, *European Economy Economic Papers*, No. 526. (Available at http://ec.europa.eu/economy_finance/publications/economic_paper/2014/ecp526_en.htm)

Claeys, G., Z. Darvas and A. Leandro (2016), A Proposal to Revive the European Fiscal Framework, *Bruegel Policy Contribution*, No. 2016/67. (Available at http://bruegel.org/wp-content/uploads/2016/03/pc_2016_07.pdf)

Eyraud, L. and T. Wu (2015), Playing by the Rules: Reforming Fiscal Governance in Europe, *IMF Working Paper*, No. 15/67.

Dombrovski, V. and Moscovici, P. (2017) Reflection Paper on the Deepening of Monetary Union. (Available at https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-emu_en.pdf)

European Commission (2017) Further Steps towards Completing Europe's Economic and Monetary Union: A Roadmap, COM(2017) 821 final (Available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0821&from=EN>)

Juncker, J.- C. (2015), Completing Europe's Economic and Monetary Union, Five Presidents' Report, in close cooperation with Donald Tusk, Jeroen Dijsselblom, Mario Draghi and Martin Schulz. (Available at https://ec.europa.eu/commission/sites/beta-political/files/5-presidents-report_en.pdf)

Smets, F. (2016), "Some Thoughts on a Fiscal Union for the Euro Area", Report of the speech for the Belgian Financial Forum, 7 November 2016 (Available at <https://www.financialforum.be/doc/doc/review/bfw-digitaal-editie1-speechfranksmets-auteurfranklierman.pdf>)

van Riet, A. (2017), Addressing the safety trilemma: a safe sovereign asset for the Eurozone, *ESRB Working Paper Series*, No. 35.

Zettelmayer, J. (2017) Managing Deep Debt Crises in the Euro Area: Towards a Feasible Regime. (Available at <https://piie.com/system/files/documents/zettelmayer20170525.pdf>)

Bénassy-Quéré, A., Brunnermeier, M., Enderlein, H., Farhi, E., Feld, E., Fratzscher, M., Fuest, C., Gourinchas, P., Martin, P., Pisani-Ferry, J., Rey, H., Véron, N., Weder di Mauro, B. and Zettelmayer, J. (2017), "Op-ed by Franco-German Economist Group

		<p>on EMU reforms", <i>Frankfurter Allgemeine Zeitung / Le Monde</i>, 27 September 2017 (available at https://www.diw.de/sixcms/detail.php?id=diw_01.c.565363.en)</p> <p>Bastasin, C., Benigno, P., Messori, M., Micossi, S., Passacantando, F., Saccomanni, F. and Toniolo, G. (2017), "<i>Joint Response from SEP Scholars to the Franco-German Proposals on Euro-Zone Reform</i>", 2 October 2017 (available at http://sep.luiss.it/sites/sep.luiss.it/files/English%20Letter_Final_1.pdf)</p> <p>European Fiscal Board (2017), "<i>Annual Report 2017</i>" (available at: https://ec.europa.eu/info/sites/info/files/2017_efb_annual_report_en_0.pdf)</p> <p>Trichet, J. (2011), "Remarks at the farewell event", <i>speech by Jean-Clause Trichet</i>, 19 October 2011 (available at https://www.ecb.europa.eu/press/key/date/2011/html/sp111019.en.html)</p> <p>Eichengreen, B. and Wyplosz, C. (2016), "Minimal Conditions for the Survival of the Euro", <i>Intereconomics</i>, 51 (1), pp. 24-28</p>
--	--	---