Policy panel

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Maastricht doctrine:
1 objective, 1 instruments; a few benign constraints

Monetary policy
- Objective: price stability at euro-area level
- Instrument: short-term interest rates
- Benign constraint: no monetization of public debts

Fiscal policy
- Objective: full employment at country level
- Instrument: fiscal balance at country level
- Benign constraint: stability and growth pact

Financial stability
- Objective: no major financial disruption
- Instrument: micro-prudential supervision
- Benign constraints: regulatory arbitrage, self-fulfilling real interest rate divergence

Post-Maastricht doctrine:
1 objective, several instruments; binding constraints

Monetary policy

- Objective: price stability at euro-area level
- Instruments: short-term interest rates, credit easing, quantitative easing
- Binding constraint: no monetization of public debts

Fiscal policy

- Objective: full employment at country level
- Instruments: fiscal balance at country and at federal level
- Binding constraint: stability and growth pact

Financial stability

- Objective: no major financial disruption
- Instrument: micro- and macro-prudential supervision
- Binding constraint: shadow banking, monetary policy

In search for new instruments of stabilization

- Capital union, labor mobility, OMT

New instruments largely untested

Economic governance needs rebalancing

Still too much emphasis on fiscal discipline

- Pre-crisis: exclusive emphasis on fiscal discipline.
- In most countries the crisis did not come from the public sector
- Post crisis: even more emphasis on fiscal discipline. Macroeconomic Imbalance Procedure less stringent; no agreed metric for structural reforms.

A comprehensive surveillance framework

- SGP and structural reforms embodied in the MIP; streamline each component (debt rule, spending rule, MIP scoreboard)
- Fiscal adjustment, external rebalancing and pro-growth reforms complements in the long term but substitute in the short term through a point-based system.
- Competence of independent fiscal committees extended accordingly; re-organization of these bodies as a network sharing common methods (like for competition or banking supervision).

The Euro area needs a safe asset

The Mundellian view of a federal budget

- An instrument for macroeconomic risk sharing.
- But unlikely to make a significant difference. Asdrubali, Sorensen and Yosha (1994): 20% of GDP → 13% of stabilization. What about 2% of GDP? Need to allow for transitory imbalances
- Useful as a catalyst for more powerful stabilization tools: financial integration (single resolution fund), labor mobility (portable unemployment benefits, or support to individual mobility).

A federal budget will not produce liquid assets

- Safe asset already exists (German Bund), but:
  - flight to quality disruptive
  - no incentive for banks to diversify their holdings of sovereign debts
  - no easy instrument for QE
- Many proposals on the table: debt redemption pact, eurobills, ESbies.
- A mini DRP of 20% of GDP would be consistent with:
  - Liquidity (€ 2 trillion)
  - Capital structure of ECB (% of GDP, not of debt)
  - Credible commitment to redeem the debt
  - Possibility to renew the scheme

Maastricht vs Brussels

Responsibility

Sovereign debt crisis

- No bailout
- Ownership
- Market discipline

Intrusion

- Conditional loans (ESM)
- European constraints
- Surveillance by Commission and Troïka

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