Fiscal policy in EMU after the reform of the European Stability and Growth Pact

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The EC Treaty's rules on fiscal policy, together with the European Stability and Growth Pact, have always been a particularly contentious part of the Maastricht Treaty. Fiscal policy remains the responsibility of member states. Their room to manoeuvre has been reduced, however, since national policies are not supposed to undermine Europe's common, stability-oriented monetary policy or work to the detriment of other member states.

From the outset, some governments have had difficulty following the rules.[1] November 2003 saw their first test when the economic slowdown in some member states sparked a conflict between the European Commission and the Council of Economic and Finance Ministers (ECOFIN) on how to deal with the deficits in France and Germany and led ultimately to the reform of the Stability Pact early in 2005.

In principle, it makes excellent sense to review and – if necessary – adapt the rules of a new currency regime a few years after its implementation. The reform of the Stability and Growth Pact in 2005 was no sober stock-taking exercise, however. It was motivated by the desire of national governments for greater flexibility and for enhanced consideration of local conditions during a difficult period.[2] As a result, the pact was adapted to the situation instead of adjusting national policies to the rules. Two-and-a-half years after the Pact's reform, some initial conclusions may now be drawn about whether the changes have resulted in better budgetary policy.

Experience to date with the reformed Stability and Growth Pact

The excessive deficit procedure

When the reformed Stability and Growth Pact took effect, three countries (Germany, France and Greece) were already running excessive deficits and two others (Italy and Portugal) joined them in the course of 2005. All nominal deficits of above 3 percent were deemed excessive without taking account of any exempting circumstances. This is progress compared to the contentious debate surrounding the warning issued to Germany in the winter of 2001.

The recommended *corrective action* complied with the rules of the Treaty and the Stability Pact. Germany and France both had to reduce their cyclically adjusted deficit by 0.5 percentage points a year. The recommendations to the other three countries were more stringent since the state of their public finances was significantly worse.

The formal decision by Italy and Portugal not to implement *one-off measures* may be linked to the reform of the Pact because these are now explicitly

Box 1

Excessive deficit procedure

1. Commission report if a member state exceeds at least one reference value or is in danger of running an excessive deficit. Factors taken into consideration include the level of investment spending, potential growth and the business cycle, implementation of the Lisbon Agenda, the amount of budgetary consolidation in "good" times and the sustainability of debt.
2. Council decision by qualified majority on whether an excessive deficit exists.
3. Council makes recommendations to the member state with a view to eliminating the excessive deficit within six months. Proposed corrective action should be more stringent if the level of indebtedness is high than if it is low.
   The cyclically adjusted deficit (after deduction of one-off or temporary measures) should be reduced by at least 0.5 percent of GDP every year.
4. If the member state fails to take action, the Council recommendations are made public.
5. If the member state still fails to follow the recommendations, it is given notice to implement, within a four-month period, the measures the Council considers necessary to reduce the deficit.
   If the member state follows the recommendations within four months, the Commission terminates the procedure.
6. If the member state has not taken any action after four months or publicly declares that it does not intend to take action, sanctions are imposed.
   The recommendations and procedural steps are suspended if the deficit is significantly and steadily reduced to around 3 percent of GDP.

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[1] For example, nearly all countries failed to adjust their budgets during periods of strong growth and followed a counter-cyclical pattern during the downturn. In addition, there was a widespread tendency to bypass the rules of the Pact, for example, through overly optimistic assumptions in their national stability programmes, by using one-off measures, creative accounting and by misreporting (see Annett 2006).

[2] For an overview of the discussion about the reform of the Stability and Growth Pact and the details of the reform of the Pact, see Buti (2006), Fischer et al. (2006) and Morris et al. (2006).

Box 2

Excessive deficit procedures by country

Germany
- January 2003: Council decision that Germany had an excessive deficit, the deficit should be corrected by 2004.
- November 2003: suspension of the procedure.
- January 2005: Council decision that the deficit should be corrected by 2005.
- March 2006: Council decision to give notice to Germany to correct its excessive deficit of over 3 percent of GDP by 2007. The following factors were taken into consideration:
  - The planned increase in VAT in 2007.
  - Structural reforms which had been introduced would need time to take effect.
  - The structural adjustments of at least 1 percent of GDP planned for 2006 and 2007 reduce on average the cyclically adjusted balance by 0.5 percentage points annually.
- June 2007: end of the procedure, the deficit had fallen to 1.7 percent in 2006 and was forecast to fall further in 2007.

France
- June 2003: Council decision that France had an excessive deficit. Recommendation to correct the deficit by 2004.
- November 2003: suspension of the procedure.
- January 2005: Council decision that the deficit should be corrected by 2005.
- January 2007: end of the procedure. Deficit in 2005 just under 3 percent of GDP. Forecast for 2008: Deficit of 2.2 percent and a reduction of the structural deficit by 1.4 percentage points.

Greece
- July 2004: Council decision that Greece had an excessive deficit. Recommendation to correct the deficit by 2005.
- February 2005: Council decision to give notice to Greece to take action to correct its excessive deficit by 2007. Reason: revised statistics put the deficit well in excess of 3 percent.
- Autumn 2005: Council decision that Greece had taken effective action.
- April 2006: Greece called on to introduce sustained measures to reduce the deficit, to cut the cyclically adjusted deficit by at least 0.5 percentage points annually from 2007, to speed up its reduction of debt, to implement the planned pension reforms and improve methods of compiling and reporting data on the public sector.
- June 2007: end of the procedure. 2006 deficit below 3 percent of GDP. Forecast of 2.9 percent for 2007 and 2.7 percent for 2008. Structural deficit reduced by nearly 3 percentage points in 2005 and 2006. Forecast of a further decrease by 1.8 percentage points till 2009.

Italy
- July 2005: Council decision that Italy had an excessive deficit (more than 3 percent of GDP in 2004 and 4 percent of GDP in 2005 in the budget). Recommendation to correct the deficit by 2007. The government sharply revised the deficit upwards to 5.7 percent after going over the country's finances on taking office in 2006. Italy called on to reduce its structural deficit by at least 1.6 percentage points between 2005 and 2007.
- The measures introduced by the government to date are regarded as compatible with the Council recommendations as long as they are implemented effectively and in full and are complemented by further substantial measures in 2007. The Commission's autumn forecast anticipates a considerably stronger correction (2.3 percentage points) of the cyclically adjusted budget than recommended. The nominal deficit ratio is expected to be around 3 percent in 2007 and 2008.

Portugal
- September 2005: Council decision that Portugal had an excessive deficit. The Portuguese government had announced that it was expecting a deficit of around 6 percent of GDP for 2005. Recommendation to correct the deficit by 2008. Consideration of the economic situation, the significant need for remedial action and the government's decision not to implement one-off measures. Portugal called on to cut the structural deficit by 1.5 percentage points in 2006 and ¾ of a percentage point in 2007 and in 2008.
- The Commission takes the view that the government's measures to date go in the right direction and are within the timeframe. Nevertheless, despite the 2.1 percentage point reduction in the cyclically adjusted deficit in 2006, the Commission's spring forecast anticipates no further significant reduction in 2007 or 2008. Since Portugal was given a lengthy period to correct its deficit, there will be no further action by the Commission for the time being.

excluded from the assessment of the budgetary situation. Nevertheless, there is no reason to reward a decision not to implement one-off measures, as seems to have happened in the case of Portugal.

The *quality of the statistics* remains an element of uncertainty.[3] The rules of the Treaty can only be properly applied if sound statistical data is available. In the case of Greece, in particular, this was not the case for a long time. It is to be hoped that Eurostat's recently published revised figures on Greece's GDP will provide a more reliable basis.

In setting the *deadlines for eliminating excessive deficits*, the Council and the Commission have at times been even more flexible than the flexibilised rules. This sometimes went hand in hand with more stringent recommendations. In each case there were reasonable grounds for showing flexibility, such as forecasts of weak economic growth or the high level of new debt in Italy and Portugal.

This has certainly increased the acceptance of the new rules among governments and thereby reduced

[3] Mora and Martins (2007) show that there are significant differences in the reliability of government deficit and debt figures among member states. Further, they think that the size of deficits may have an impact on the way statistical offices revise data.

the risk of the deficit procedure imposing demands on countries which would be difficult to meet. On the other hand, the reform of the Stability Pact had already made the rules less rigid. There is a real danger that the consideration of additional special circumstances will weaken recommendations to cut excessive deficits even further.

It seems that governments will no longer resist categorisation of their deficits as excessive or protest when given notice to take remedial action if they are allowed more time to implement the corrective measures. If the Pact is not stringently applied for reasons of practicality, it must at least be ensured that countries *actually take the necessary measures.*

In all five countries the period from the emergence to the elimination of an excessive deficit has been and still is far longer than was intended by the Treaty. The flexibility of the revised Stability and Growth Pact with respect to the time of correcting an excessive deficit has again been stretched to the limits, and partly even beyond.

Longer implementation periods than are set by the Pact should be granted only if corrective action has already been decided on or if it is clearly to be adopted by parliament in the near future. In the cases of Italy and Portugal, the measures were judged merely on the basis of budget plans, on the assumption that they would be implemented in full and on the expectation of further activities.

Accelerated growth and low interest rates have made it significantly easier to bring down the excessive deficits. In general, the reduction of deficits can be attributed more to the *favourable economic climate* than to incisive action. Where action has been taken, it has aimed primarily at raising government revenue.[4] The extraordinary low level of interest rates for a long period of time has helped to keep public expenditure in check. Considering the high level of debt in many countries, the budgetary room for manoeuvre could quickly evaporate once interest rates start to rise.

True, the rise in spending has been curbed, but less than would have been possible in times of higher growth. Further, *progress towards future-oriented budget structures* has generally been slow. Public spending must be geared more strongly to promoting growth, and consumptive expenditure must be curtailed in order to fund these future-oriented areas and to create financial scope to deal with the impact of demographic trends on public finances.

All countries which have had excessive deficits since 2002 still have debt levels of over 60 percent of GDP. One should bear in mind that this level was simply the European average at the start of the 1990s. This figure, therefore, is highly influenced by the expansionary fiscal policies in the two decades before. Hence, a public debt close to 60 percent cannot be regarded as indicating solid or sustainable public finances.

The scenarios in the stability and convergence programmes concerning the development of *debt to GDP ratios* demonstrate clearly that the objectives of most governments are not ambitious. In France, Germany and Portugal, compliance with the strategies outlined in the programmes will not see debt ratios dip below the 60 percent threshold until 2015. Italy, under its baseline scenario, will be at 80 percent in 2015 and Greece at 70 percent. In around ten years' time, therefore, these countries will still lack an adequate cushion against additional age-related strains. This is exactly the time, when the ageing of the population will start to exert a significant impact on public finances. This is a long-term threat to cohesion in the euro area.

Avoiding excessive deficits

The Stability and Growth Pact contains rules designed to prevent excessive deficits from arising in the first place. Each country follows a medium-term budgetary objective, which is normally to achieve a balanced budget over the economic cycle. This "medium-term objective" (MTO) should leave sufficient room for automatic stabilisers to work in "bad times" and still keep the deficit below the 3 percent limit. Eight of the 13 euro countries had a cyclically adjusted deficit in 2006. A balanced budget is forecast for Belgium in 2008, for Austria in 2009 and for France by 2010. The remaining five countries are allowing themselves even more time.

The most recent stability programmes were published at the beginning of 2007. At the time, most of their *growth forecasts* were close to the Commission's projections in its autumn 2006 forecast. Only Greece and Portugal were significantly more opti-

[4] The improvement in the German budget, for example, can be largely attributed to an increase in VAT by three percentage points in 2007.

Box 3

Medium-term budgetary objectives

Rules for setting medium-term objectives:

- Objectives are based on the cyclically adjusted deficit. One-off measures are excluded (structural deficit).
- Country-specific medium-term budgetary objectives should be between
  - ➔ a cyclically adjusted deficit of 1 percent of GDP in countries with low debt and high potential growth and
  - ➔ a cyclically adjusted balanced budget or surplus in countries with high debt and low potential growth.

mistic. Greece expected an annual GDP growth rate of 4.0 percent between 2006 and 2008, compared to the Commission's forecasts of 3.7 percent p.a. The Portuguese government based its stability programme on a forecast of 1.9 percent per year, while the Commission expected only 1.5 percent. Despite their relative optimism, both countries expect still to have *cyclically adjusted deficits* at the end of the projection period. While the French growth forecast was in line with the Commission's assessment, the French government planned to achieve a surplus in its structural deficit in 2010 and the Commission expected a deficit of 1.8 percent in 2008. This gap can clearly not be closed in the years 2009 and 2010.

For some countries the Commission, in its 2007 autumn forecast, expects a more favourable outcome compared to the stability programmes, because the economic outlook has brightened somewhat. Germany, for instance, may be able to achieve a balanced budget in 2010.[5] Further, the growth forecast of Greece has now been confirmed, but the government is still far more optimistic with respect to the cyclically adjusted deficit than the Commission forecast that includes the government's measures taken since the publication of its stability programme.

In addition, the new Commission forecast now clearly shows that the French stability programme was based on an unrealistic assessment of future budget developments. France will neither be able nor is it willing to reach a balanced budget by 2010. The same is true for Austria, Italy and Portugal. All of them will miss the medium-term objective in 2009 and most probably also in 2010.

Most of the countries that failed to meet the medium-term objective in 2006 are adhering in their stability programmes to the benchmark of reducing the cyclically adjusted deficit by 0.5 percentage points annually. The budget plans in the countries with a cyclically adjusted deficit of more than 2 percent in 2006 expect to reduce their deficits by more than 0.5 percentage points per year. They are assumed to be experiencing "good times", since their GDP growth exceeds the increase in potential output. The envisaged adjustment paths of these countries are therefore in line with the Stability and Growth Pact.

But there are exceptions, namely Austria, Germany and Slovenia. Slovenia's structural deficit of 1½ percent can probably be deemed acceptable over a longer period of time for a country in a catch-up phase. Austria and Germany cannot count on such considerations. In their stability programmes, they do not fulfil the requirement of a yearly reduction of the cyclically adjusted deficit by 0.5 percentage points. Both governments point to structural reforms taking place. In the case of Germany, this view may be correct, as the country's deficit has been reduced at high speed. This development is also reflected in the Commission's economic fore-

Table 1

Cyclically adjusted deficit at the end of the projection period (in percent of GDP)

	Stability programmes		Commission's 2007 autumn forecast
	2009/10	Percentage point change on 2006	2009
Austria	+ 0.4[a]	+ 0.3	– 0.8
Belgium	+ 0.9	+ 0.5	0.0
Finland	+ 2.8[a]	– 0.0	+ 4.0
France	+ 0.2[a]	+ 0.7	– 2.4
Germany	– 0.6[a]	– 0.3	– 0.2
Greece	– 1.6	+ 0.6	– 2.3
Ireland	+ 1.6	– 0.4	0.0
Italy	– 0.4[a]	+ 0.9	– 1.9
Luxembourg	+ 0.9	+ 0.7	+ 1.7
Netherlands	+ 0.7	+ 0.1	+ 0.7
Portugal	– 0.5[a]	+ 0.7	– 2.1
Slovenia	– 1.1	+ 0.1	– 1.0
Spain	+ 1.6	– 0.1	+ 1.4

[a] 2010.

Sources: European Commission (2007a and 2007b); national stability programmes; Association of German Banks.

[5] According to the recent German government forecast, the country will have achieved a balanced budget in nominal terms in 2007.

Table 2
Growth in real GDP and potential output in the projected period (2006 to 2009 or 2010, in percent per year)

	Gross domestic product		Potential output
	Stability programmes	Commission's 2007 autumn forecast	Stability programmes
Austria	+ 2.6	+ 2.8	+ 2.6
Belgium	+ 2.3	+ 2.4	+ 2.8
Finland	+ 2.9	+ 3.4	+ 3.8
France	+ 2.3	+ 2.2	+ 2.0
Germany	+ 1.8	+ 1.9	+ 1.8[a)]
Greece	+ 4.0	+ 3.7	+ 4.0
Ireland	+ 4.8	+ 4.9	+ 4.7
Italy	+ 1.5	+ 1.5	+ 1.7
Luxembourg	+ 4.6	+ 4.7	+ 5.2
Netherlands	+ 2.4	+ 2.8	+ 2.4
Portugal	+ 2.1	+ 1.5	+ 2.1
Slovenia	+ 4.3	+ 4.5	+ 5.2
Spain	+ 3.4	+ 3.5	+ 3.5

[a)] Based on GDP growth and output gap figures.

Sources: European Commission (2007a and 2007b); national stability programmes; Association of German Banks.

cast. When it comes to Austria, however, the Commission does not expect to see any improvement.[6] Furthermore, this country is also an illustration of the fact that the stability programmes often do not contain all the required information and sometimes fail to spell out the budgetary implications of policies.[7]

The objective of a balanced budget in the medium term is apparently still not being taken as seriously as necessary by some governments. The idea that public deficits will enhance growth is seemingly still relatively popular among politicians even though there is plenty of evidence that sound fiscal policy can do more to boost employment than deficit spending. Sometimes national political concerns or constraints are responsible. This is illustrated by the budget plans and tax-cutting programme in France, the additional expenditure programmes in Germany after public income grew more than anticipated, and the watering down of pension reform in Italy.

Promoting sustainability

All in all, the reformed Stability and Growth Pact has not encouraged participating countries to reduce their debt rapidly in order to make public finances fit for the future. The repeated warnings in the Council's recommendations about budget sustainability have done nothing to change this. Contrary to what many people think, the deficit and debt reference values are not goals but ceilings that should not be exceeded under any circumstances. This requires factoring in a safety margin that is large enough to cope with the budgetary challenges posed by cyclical and, above all, demographic developments.[8]

In the February 2006 report by the Economic Policy Committee and the European Commission "The impact of ageing on public expenditure: projections for the EU 25 Member States on pensions, health care, long-term care, education and unemployment transfers (2004 to 2050)", the Commission calculates the gap between the structural deficits in

Box 4
Rules on the adjustment path towards medium-term budgetary objectives

- Member states which have not yet achieved their medium-term budgetary objective should take steps to meet the objective within a reasonable period of time.
- Benchmark for determining what constitutes a reasonable period: reduction of the cyclically adjusted deficit by an average of 0.5 percentage points of GDP annually.
- Adjustment should be swifter in good times than in bad. "Good times" are periods in which output exceeds its potential level.
- When defining the adjustment path, structural reforms may be taken into account as long as they have a verifiably positive effect on the long-term sustainability of public finances.

[6] "The overall conclusion is that, in a context of robust growth prospects, the programme envisages slow progress towards the MTO through a relatively back-loaded adjustment that is based mainly on not-fully-specified expenditure restraint. There are risks to the achievement of the budgetary targets after 2008 and the MTO might not be reached by the end of the programme period." (Recommendation for a COUNCIL OPINION on the updated stability programme of Austria, 2006 to 2010, 30 May 2007).

[7] "The stability programme does not contain a qualitative assessment of the overall impact of the September 2006 implementation report of the National Reform Programme within the medium-term fiscal strategy. In addition, it provides no systematic information on the direct budgetary costs or savings of the main reforms envisaged in the National Reform Programme and its budgetary projections do not explicitly take into account the public finance implications of the actions outlined in the National Reform Programme." (Recommendation for a COUNCIL OPINION on the updated stability programme of Austria, 2006 to 2010, 30 May 2007).

[8] An overview of the different concepts of sustainability of public finances and the risks contained in the budgets of the euro area member states can be found in ECB (2007) and Giammarioli et al. (2007). The relationship between the Stability and Growth Pact and the future costs of population ageing under different pension regimes is discussed by Beetsma and Oksanen (2007). All these publications show clearly the necessity of timely government action to cope with the negative effects of future demographic changes on public finances.

Table 3
Public debt at the end of the projected period (in percent of GDP)

Country	Stability programmes	Commission's 2007 autumn forecast
	2009/10	2009
Austria	56.8[a)]	57.2
Belgium	74.3[a)]	79.0
Finland	33.7[a)]	29.8
France	58.0[a)]	64.1
Germany [1)]	64.5[a)]	60.3
Greece	91.3	88.8
Ireland	21.9	28.5
Italy	100.7[a)]	101.2
Luxembourg	8.5	5.4
Netherlands	44.2	41.7
Portugal	62.2[a)]	64.5
Slovenia	27.7	23.8
Spain	32.2	33.0

[a)] 2010.

Sources: European Commission (2007a and 2007b); national stability programmes.

public finances and a sustainable budget for 2050 at around 3½ percentage points of GDP. If this gap is not closed, the average debt ratio in the EU will rise – according to the Commission's calculations – to almost 200 percent.

If all medium-term budgetary objectives were met in 2010, the sustainability gap would only be half as wide and the debt ratio in 2050 would be around 80 percent – still significantly above the reference value. Unfortunately, past experience and the most recent stability programmes and political statements make even this prospect unrealistic.

Most national budgets currently lack sufficient financial room to cope with the impact of the demographic trend. Yet it will only be about ten years before the adverse effects begin to be felt. So there is no justification for delay in correcting excessive deficits or bringing down high debt ratios. Introducing more flexibility into the Stability Pact has clearly sent out the wrong signal.

This is all the more regrettable given that, as the above calculation shows, comparatively modest action taken today would deliver noticeable beneficial effects in the long term. At present, a fiscal policy focussing on sustainability would not, in most member states, require much more stringent measures than those already contained in their stability programmes. In a few years' time, with no change in the governments' present attitude, the measures, which will then be necessary to reach a sustainable level of debt, will have to be much tougher.

Budgetary governance at EU level

The reform of the Stability Pact did not change its fundamental nature. With good reason: the common monetary policy in the euro area is complemented by a central framework for national fiscal policy. Admittedly, some of the expectations associated with the Pact are not always realistic. This applies, for example, to the idea that peer pressure in the Council would encourage "good" fiscal behaviour. This is based on the assumption that "peer pressure" will lead national governments to obey the rules in a common interest. However, looking at the experience since mid-2005, for example the comparatively long adjustment periods, the governments seem to lean more towards generosity, knowing that they may get into difficulties themselves one day and will then depend on the understanding of their counterparts.

The whole procedure also suffers from the fact that undesirable developments often come to light only after a country's finances are re-examined after a change in government or when previously reported figures are revised. Re-examining the books on taking office may be a prevalent political practice. But if the ensuing "surprises" occur too frequently, they are no longer convincing, particularly if successive governments are drawn from the same small group of parties. Then they only show that the response to troubled public finances is rarely a consistent policy of consolidation.[9]

This is no small problem, as a central element of the Treaty depends on reliable data. Otherwise it is unable to function effectively. At present, new figures put up by a government have to be accepted *nolens volens,* at least after an examination by Eurostat. Unfortunately, up to now, there is no strong enough incentive not to tinker with statistical data which are the foundation of one of the most important parts of the Maastricht Treaty.

[9] There may be also a relationship between political instability, i.e. a higher risk for a ruling government being voted out of office, and the level of deficits of the country in question (see Debrun and Kumar, 2007), as such a government may try to positively influence the electorate by generous public expenditures.

Has the revision of the Stability and Growth Pact changed fiscal policy in EMU?

Both the Treaty's articles on fiscal policy and the Stability and Growth Pact are necessary to ensure smooth interaction between the central bank and fiscal policy in a currency union where monetary policy is made centrally and fiscal policy at national level. It was doubtful from the outset whether practice would match up to promise. Governments cannot generally be accused of breaking the rules. Technically, there is little to fault them about their behaviour to date, even if the rules have occasionally been stretched to their very limit. This has usually been done for reasons that at least bear considering.

In the political arena, it is not easy to stick to fiscal ideals in the face of narrow short-term interests or party strategies. On the other hand, experience has shown that popular steps are often not essential in safeguarding a politician's post. In any event, these are not examples of long-term policy thinking. There is no arguing with financial arithmetic, particularly when it comes to a combination of excessive debt and future demographic strains.

Looking at typical patterns of behaviour among politicians, at first sight, the lack of sanctions in the preventative arm of the Stability Pact would seem to be a shortcoming. Yet, penalties of this kind would run counter to the fundamental concept of the Treaty, which provides for sanctions if the behaviour of one member state damages another.

The performance of fiscal policy in the euro area since 2005 has not been as smooth as one would have hoped, but we have seen no severe crisis as that of the period between 2003 and 2005. Yet, looking at how some problems have been addressed, the feeling remains that, when difficulties arise again, we will see renewed attempts by governments to test the limits of the new Pact or to change the rules instead of making the necessary adjustments. This feeling is based above all on the persisting unwillingness to act with the long term in mind and see sustained budgetary consolidation as one of the most important tasks for the future.[10] The reform of the Stability Pact aimed at a higher "economic rationality". This alleged improvement in economic rationality of the revised Pact has up to now not led to a perceptible improvement in the economic rationality of fiscal policy.

[10] Coeuré and Pisani-Ferry (2005) call for a "Sustainability and Growth Pact". Even if the technical problems of their proposition (including the present value of age-related net implicit liabilities, ARNIL) may turn out to be too grave and leave too much room for debate about statistical definitions and calculations, the underlying idea deserves full support. In the end it may turn out that the Stability and Growth Pact must be enhanced by including sustainability rules in order to force governments to take long-term needs into consideration. Otherwise, one of the authors' conclusions will prove to be correct: "Failure to agree on and enforce a common fiscal philosophy could be a strong negative signal for the future of monetary union."

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