

10th EUROFRAME CONFERENCE

Towards a better governance in the EU

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Discussion: Fiscal issues

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Summary of arguments:

- Reicher-Ploedt: Fiscal rules: relatively high consistency and stability of coefficients
- Viren: Multipliers differ considerably between countries (size), components of expenditure and revenue.. and context
- OFCE: Consolidation strategy, mainly based on assumptions of average growth and potential output plus estimated output gap.

Issues

- Discretionary policy versus automatic stabilisers and reactions
- Size of multiplier for different expenditure and tax categories (NIGEM)
- Time lag for effects of discretionary measures
- Size of multipliers over time (from positive to negative?)
- Stability of interest rates
- Term structure of public debt
- Public debt creditors
- Country structure of public debt
- Hidden liabilities (pension promises) and assets (tangible and intangible)..... And what about environmental liabilities?
- Measurement of GDP, growth and productivity
- Measurement of potential GDP

Next slide More on public debt and pension liabilities

- Next slides

Table 7: Summary of main government finance indicators

	Main pension scheme	Maastricht-sense GDP (2011, €bn)	Maastricht-sense government surplus (2011, % GDP)	Total Maastricht debt (2011, %GDP)	Public pension liabilities (2010, %GDP, 4% discount rate)	Main risks for pensions liabilities
Belgium	DB	369.8	-3.7	97.8	795.3	
Bulgaria	DB	38.5	-2	16.3	93.6	Demography, Employment+, Hours worked+
Czech Republic	DB	156.2	-3.3	40.8	108.6	Demography, Employment, Hours worked, Potential GDP
Denmark	DB	240.5	-1.8	46.6	396.5	Financial markets
Germany	PS	2592.6	-0.8	80.5	141.1	Financial markets, Demography, Employment+, Hours worked+, Potential GDP
Estonia	DB	16.0	1.1	6.1	54.2	Demography, Employment+, Hours worked+, Potential GDP+
Ireland	Flat rate + DB	159.0	-13.4	106.4	670.1	Financial markets, Potential GDP
Greece	Flat rate + DB	208.5	-9.4	170.6	251.3	Demography, Employment, Hours worked
Spain	DB	1063.4	-9.4	69.3	126.0	Demography, Potential GDP+
France	DB + PS	1996.6	-5.2	86.0	177.9	
Italy	NDC	1579.7	-3.9	120.7	139.8	Demography

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Netherlands	DB	602.0	-4.5	65.5	195.0	Financial markets, Employment, Hours worked, Potential GDP
Austria	DB	300.7	-2.5	72.4	311.9	Employment, Hours worked, Potential GDP
Poland	NDC	369.7	-5	56.4	138.2	Demography+, Employment+, Hours worked+, Potential GDP
Portugal	DB	171.0	-4.4	108.1	144.3	Demography, Employment, Hours worked
Romania	PS	131.3	-5.5	33.4	-46.7	Demography+, Employment+, Hours worked+, Potential GDP
Slovenia	DB	36.2	-6.4	46.9	337.8	Demography, Employment, Hours worked, Potential GDP
Slovak Republic	PS	69.1	-4.9	43.3	431.0	Demography, Employment+, Hours worked+, Potential GDP
Finland	DB	189.4	-0.6	49.0	46.9	Financial markets, Employment, Hours worked
Sweden	NDC	387.6	0.4	38.4	450.8	Financial markets
United Kingdom	DB	1750.4	-7.8	85.0	461.0	Financial markets

Source: Eurostat, European Commission (2012), own calculations

Three definitions of public debt

Public debt according to three different definitions

Country	Gross public debt (Maastricht definition)	Gross public debt (OCDE definition)	Net public debt (OCDE) (x)
<u>United States</u>	63,4 (2004)	61,8	43,1
<u>Eurozone</u>	68,6	74,8	48,2
<u>Germany</u>	67,6	69,3	48,1
<u>France</u>	63,6	71,1	37,5
<u>Italy</u>	106,5	118,2	92,1
<u>Japan</u>	164 (2004)	171,9	84,6
<u>United Kingdom</u>	43,1	46,6	29,6

(x) Gross debt less public sector financial assets

Debt of three sectors in France

Endettement intérieur total en France en 2008 ¹¹

	Part dans l'endettement intérieur	Endettement en % du PIB
Administrations publiques	33,5 %	63 %
Entreprises	41,5 %	78 %
Ménages	25 %	48 %
Total	100 %	190 %

Measurement issues



Next slides

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Adjusting national accounts (CHS) 1973-2003

Published data, including business investment in intangibles

1. Labor productivity (percent) ¹	1.63	3.09	1.45
<i>Contribution of Components:</i> ²			
2. Capital deepening	.97	1.68	.71
3. Tangibles	.55	.85	.30
4. IT equipment	.30	.60	.30
5. Other ³	.25	.24	-.01
6. Intangibles	.43	.84	.41
7. Software	.12	.27	.15
8. Other (new CHS)	.31	.57	.26
10. Labor composition	.25	.33	.08
11. Multifactor productivity	.41	1.08	.67

The productivity concepts: INNODRIVE findings

Table 1. Growth accounting results (1995-2005)

	Current Asset Boundary			Extended Asset Boundary				Estimated Impact		
	Contributions to Labour Productivity Growth			Contributions to Labour Productivity Growth						
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(d-a)	((e-f)-b)	(g-d)
	LPG	CD	TFPG	LPG	NA CD	NI CD	TFPG	LPG	CD	TFPG
Austria	1.87	0.78	1.08	2.05	0.72	0.34	0.97	0.18	0.29	-0.11
Denmark	1.55	0.55	1.00	1.61	0.50	0.27	0.83	0.06	0.22	-0.16
Finland	2.98	0.28	2.69	3.07	0.25	0.37	2.43	0.09	0.34	-0.26
France	2.01	0.39	1.61	2.07	0.36	0.23	1.47	0.06	0.20	-0.14
Germany	1.59	0.80	0.78	1.69	0.74	0.27	0.68	0.11	0.21	-0.11
Italy	0.17	0.55	-0.37	0.26	0.51	0.09	-0.35	0.09	0.06	0.02
Netherlands	2.20	0.89	1.50	2.25	0.62	0.31	1.31	0.05	0.24	-0.20
Portugal	1.81	1.82	-0.01	1.94	1.72	0.24	-0.03	0.13	0.14	-0.02
Spain	0.21	0.53	-0.32	0.24	0.50	0.03	-0.29	0.04	0.01	0.03
Sweden	3.73	1.14	2.56	3.69	1.01	0.44	2.20	-0.04	0.32	-0.37
United Kingdom	2.62	1.06	1.55	2.71	0.95	0.34	1.39	0.09	0.24	-0.15

Notes: LPG stands for labour productivity growth; CD is capital deepening, distinguishing between national account (NA) and new intangible (NI) CD; TFP is total factor productivity.

The austerity debate is beside the point for Europe

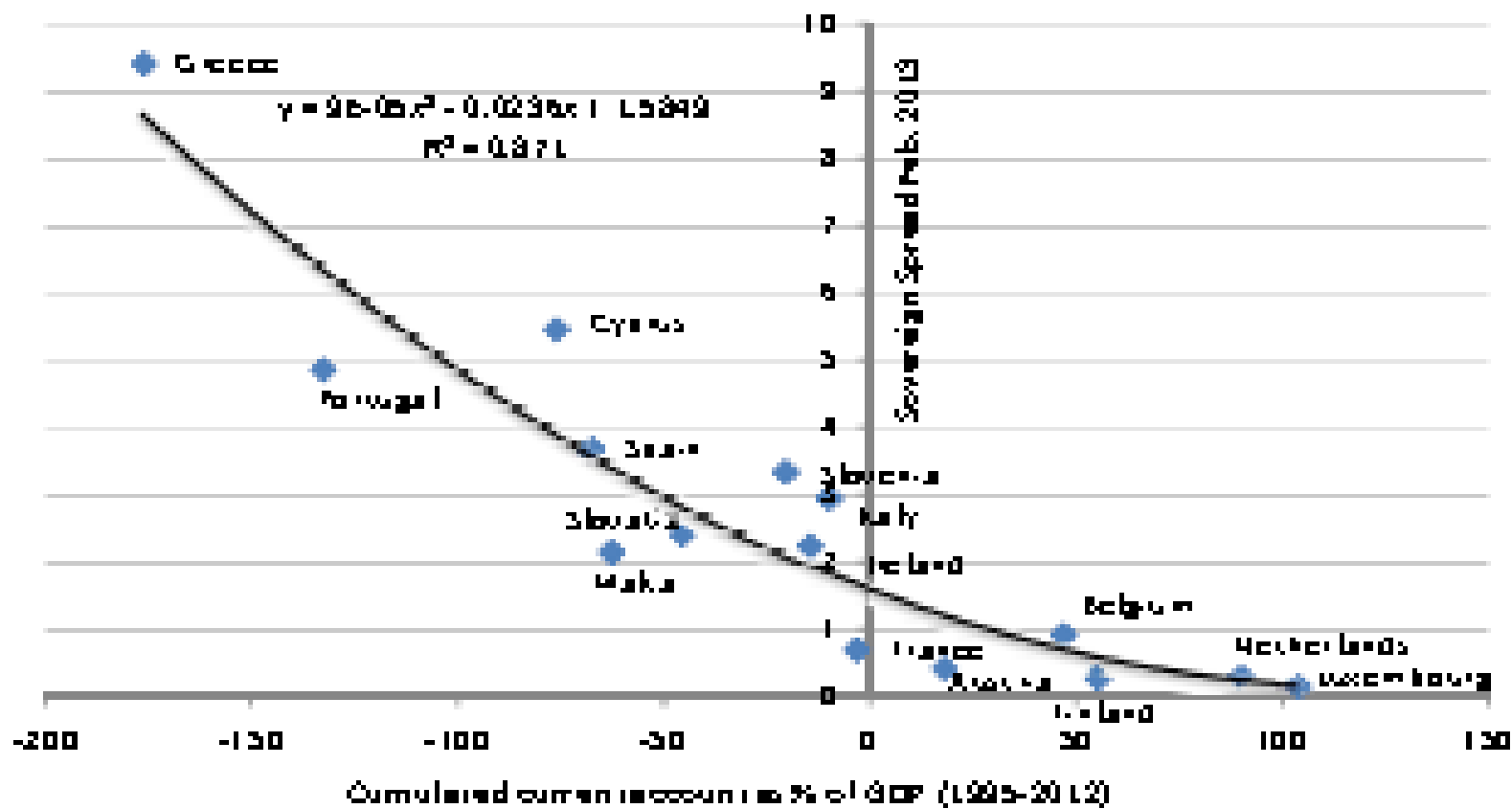
What counts is the accumulated current external account not the public debt or deficit

*In: Economic Policy, CEPS
Commentaries*

<http://www.ceps.eu/book/austerity-debate-beside-point-europe>

Figure from the paper by Daniel Gross

Sovereign Spread vs. Current Account





Thank you for your attention

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