

ECO/079
Economic policies of the euro-
zone countries

Brussels, 21 March 2002

OPINION
of the
Economic and Social Committee
on
**The economic policies of the euro-zone countries: convergences and divergences,
results and lessons to be drawn**

On 31 May 2001, the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an own-initiative opinion on:

The economic policies of the euro-zone countries: convergences and divergences, results and lessons to be drawn.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on this subject, adopted its opinion on 25 February 2002. The rapporteur was **Mr Nyberg**.

At its 389th plenary session (meeting of 21 March) the Economic and Social Committee adopted the following opinion by 90 votes to one with three abstentions:

1. Introduction

1.1 In an opinion on economic policy¹ coordination as a consequence of the EMU² the Economic and Social Committee stated that such coordination is necessary, and put forward some possible rules.

- The first rule is to choose the correct direction of the economic-policy measures – expansionary or restrictive.
- The second is in what way the measures affect other euro-zone countries. Measures which have as much effect as possible should be chosen if the economies are in the same business-cycle position. A country which is out of phase with the others should choose measures with as little external effect as possible.
- After common discussions on the most favourable policy mix for each country the exact choice of measures is up to each individual country.
- If other effects of the measures are considered, e.g. effects on the tax level, this should only be as a second line of preferences – the effect on the business cycle is the primary objective.
- When positive effects on other objectives can be achieved together with the desired effect on the business cycle, such measures should of course be searched for.

1.2 The Committee has decided to draw up an additional opinion to continue the discussion on economic policy coordination. This opinion studies the separate economic policies of the 12 euro-zone countries to find out if in practice there is a convergence or perhaps divergence in

¹ This opinion deals with those aspects of Economic Policy which are comprised in the term budgetary policy, both the revenue and expenditure sides of the public budgets

² OJ C 139/60 (11.5.2001)

some policy areas. What are the results of the chosen policies on the economic situation in each country? Are there good examples to be found already after the first years of the EMU?

1.3 This opinion can also be seen as a part of the yearly studies by the Committee on the Broad Economic Policy Guidelines (BEPG). These studies focus on the general development of the economic situation for the EU and the overall direction of the policies. There has not earlier been any possibility for more in-depth studies of the separate countries.

1.4 The figures used in this study are mainly taken from different publications from the European Commission, Economic and Financial Affairs and Employment and Social Affairs Directorate-Generals³.

2. Policy objectives

2.1 The monetary policy objective is set by the European Central Bank (ECB); the rate of inflation is to be kept under 2% at a medium term. The measures taken by the ECB, their rates of interests and open market operations, are not discussed in this opinion. Instead, the actual situation after the monetary policy actions is the starting point. But, of course, a low rate of inflation is one of the main objectives for all policy-makers.

2.2 The public budget objective is based on the aim to safeguard the 3% of GDP deficit ceiling. But this earlier "objective" has been developed into a medium term "close to balance or in surplus" objective. Economic policy discussions in the Commission and the Council seem to consider this as an overall objective.

2.3 The 60% ceiling for public debt, emanating from the Maastricht criteria, is still an objective but because of the reductions during later years it now attracts less interest. In the coming years only three of the EU countries will have a debt higher than that ceiling. An increasing interest in this objective is necessary as the demographic changes will among other things require that the interest burden be as small as possible.

2.4 Discussions on the economic situation and on economic policy choices are based on the budget balance and public debt objectives. But increasing interest seems to be given to the economic growth objective. There is no target level set for this objective. It is rather seen as a result of the economic situation and economic policy. When the outcome in a country is lower than average growth, that country's economic policy is not necessarily questioned. Although it is not an explicit objective, achieving economic growth is considered central in Commission economic studies. Sustainable economic growth should therefore be one primary objective of economic policy.

2.5 In studies dealing with economic policy, employment is often neglected as a variable, both from the perspective of keeping unemployment down and that of achieving high rates of labour

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(European Economy. Reports and studies, No. 3, 2000, No. 3, 2001 and Employment in Europe)

force participation⁴. Apart from being a goal in itself high economic growth is also necessary for the achievement of low unemployment and a high rate of labour force participation. We do not consider the wage policy and its potential effects on employment and demand in this opinion. There are of course also important influences on employment from both the Luxembourg and the Cardiff processes as well as from the Structural Funds. Employment ought to be at the forefront as one primary objective for economic policy. The countries should be judged also according to their achievement of this objective in BEPG and SGP⁵.

2.6 Achieving high levels of social welfare, according to the fundamental articles of the European Union⁶ of strengthening social cohesion, is seldom found as an objective. This can also be seen as an end result of higher economic growth, in fact, the sought-for real result for all the BEPG and SGP political actions. The distribution of this welfare is often lacking as a part of the analysis as are other aspects of the social systems. Such effects of the economic policy are very much the competence of the individual Member States and, therefore, we will not include a social welfare objective in our analysis. As a part of this we will neither, as is often done, point the finger at those countries which reduce their taxes without a concomitant reduction in the social welfare payments.

2.7 The Committee will in this opinion on economic policy not directly consider the inflation rate - a central objective of monetary policy. The subject is instead the growth rate as an objective, objectives for unemployment and labour force participation rates and social welfare as an end result of growth, employment and other intermediate goals.

3. National economic policies 1999–2001 - a general perspective

3.1 The Commission considers that the SGP target of close-to-balance or in-surplus for the public budget should be respected. One reason is to enable the Member States in the future to allow the automatic stabilisers also to work in the case of an economic slowdown. But it has not been defined when a situation can be characterised as a slowdown.

3.1.1 The policy mix at the national level should not only be appropriate for the economic situation in that country but also be coherent with the overall fiscal stance for the euro area.

3.2 The Commission⁷ correctly points to the need to expand the debate from merely focusing on the SGP discipline to also including the contribution of the public budget to growth and employment. This is very welcome, but it is hard to find any recommendations along this line. When they are found, it is often for countries where they can go hand in hand with budget stabilisation.

⁴ Labour force participation (activity rate) = employed and unemployed persons as a percentage of the potential labour force.

⁵ SGP = Stability and Growth Pact.

⁶ EU Treaty, Article 2.

⁷ COM(2001) 355 final, p.3.

3.3 Two main features are now rightfully in the centre of the discussions – the cyclical stabilisation role of budget policy and to what extent the automatic stabilisers should be allowed to work. The next step in cyclical policy – discretionary counter-cyclical actions – is taken in some countries but seldom referred to as "discretionary". Here we can see another "hand-in-hand" example. If they can be described as structural reforms, they may very well appear in the Commission economic reports.

3.3.1 The Commission in its report on public finances states that "the budgetary outcome for 2000 should have been better, as some governments gave away part of the higher-than-expected 'growth dividend' via tax cuts or expenditure increases"⁸. But a parallel question to this could be what the growth prospects would have been for 2001 if the countries had not used that opportunity?

3.3.2 In the same spirit it is said that automatic stabilisers can be used when there is a downside risk for the economic development, but only insofar as the country has attained the goal of close-to-balance or in-surplus. The problem becomes worse when those most in need of such an economic stimulus are the countries that have not attained that goal.

3.4 The Commission is rightly concerned about pro-cyclical behaviour. It has occurred frequently, especially during the 1990s. It was a negative side of the application of the Maastricht criteria. Currently, some countries experiencing a slowdown once again follow what can be called a pro-cyclical policy by strictly adhering to the SGP. They are not criticised. On the other hand, those who regard the downturn as a cause for concern and take corresponding measures will be criticised for not respecting the SGP. The conflict between objectives should be solved with the experience from the 90s. Adhering to just one of the objectives should not be the solution. The emphasis put on different objectives differs between the Directorates-General of the Commission. This is a matter of concern when you want to consider the policy in total.

3.4.1 The situation during 2001 with a reduced growth rate has worsened the problems. According to the Commission some countries display inflationary risks, some have not achieved the budget balance and the rest could let their automatic stabilisers work. For all but two countries possible effects from automatic stabilisers are as small as 0.1 or 0.2 percent of GDP. Some countries have taken discretionary actions. The Netherlands is reducing its surplus, which also seems recommendable in this situation. Finland, Luxembourg and Ireland are reducing their very high surpluses. That can be seen as a relative stimulus and probably not acceptable to the Commission. Nevertheless, these are small countries, not very much affecting the total inflation rate. This economic stimulus could be desirable for countries having greater problems with the growth rate. Finally, Germany increases its deficit, mainly by its tax-reduction scheme. Although Germany will be close to the limit of 3% deficit, this is explained by the continual downward correction of growth forecasts.

3.5 The Commission in a sophisticated way tries to measure both the economic and the monetary stance, and attempts to find out if economic and monetary policies have been neutral, expansionary or contractive during the first two years of EMU. The economic policy is said to have

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Public Finances in EMU - 2001, page 2 (European Economy. Reports and studies, No. 3.2001)

been neutral during the first year of EMU but moving in a loosening direction. Monetary conditions started out as moderately expansionary, moving in a tightening direction. For individual euro countries, only Finland experienced a real economic tightening during 2000. In Greece monetary conditions were relaxed somewhat. Most other countries, having fairly tight monetary conditions experienced a further tightening. In Ireland monetary conditions lead to increased inflation.

3.5.1 For 2001, the situation is much more split. Finland, the Netherlands, Germany and Ireland have a loosening fiscal policy. Tightening monetary conditions occur as often as changes in a loosening direction. If this is seen in the light of capacity utilisation, only Germany in 2001 still possesses unused capacity to any significant degree according to the Commission spring calculations. A change has occurred inter alia due to the acts of terror on 11 September 2001 with reduced demand and increased unused capacity in most countries as well as responses to this, e.g. interest-rate reductions.

4. Economic impact

4.1 Overall economic impact

4.1.1 Assessing economic policies in terms of their impact on economic growth is a multi-tiered process. An assessment based on an individual measure, even if it is a dominant one, is not permissible. The composition and reciprocal effect of the entire package of measures must be analysed and evaluated. A definitive judgment is only possible if the time at which the measures take effect is also covered in the analysis. The Commission has attempted to make calculations from such considerations. It has found that expenditure side changes in the public budgets have a faster impact than actions on the tax side.

4.1.2 Actions aiming at the demand side of the economy will result in changes quicker than those aiming at the supply side. As tax cuts can have both demand and supply effects this explains some of the slower response to tax changes.

4.1.3 All these aspects have to be considered to find a well-composed economic policy. As an example a tax cut might not give the wanted response for the employment rate. Likewise a reduction in child-care fees or improved availability of child-care facilities might not have as large effect as expected. These two actions in combination, on the other hand, might have larger effects than the sum of their separate effects.

4.1.4 Another aspect that complicates the design and measurement of economic policy is the difference between the general public budget including all levels of government and the central government budget. The government and parliament normally have direct influence only over the central government budget. In some countries agreements have been concluded for an alignment of budgets at other levels with the central government budget. This problem is of course more complex in federal states. For the ECB and the Commission the concern is with the general budgets.

4.1.5 It is often said that a heavier burden is put on economic policy when monetary policy is given. Differences in economic situation now have to be addressed solely by economic policy. But, on the other hand, before the common monetary policy of the EMU there was more spill-over from an economic policy measure. Not only could the effects disappear through trade and higher inflation, but also through higher interest rates and through volatile exchange rates. The common monetary policy can, therefore, be said not only to broaden the scope for economic policy but also to make it more efficient.

4.2 Growth and economic achievements

4.2.1 Assessing the impact of an economic measure is tricky, as there are two determining factors – the actual political measures and the economic situation, mainly growth, with in turn partly depends on consumers' and producers' confidence. This is not a big problem if the economic growth forecast of the coming year turns out to be accurate. Then it is possible in advance, after assessing the effects of that growth rate, to decide upon an expansionary, neutral or contractive economic policy. During 1999 and 2000 governments tended to underestimate economic growth. In a situation where performance is assessed according to the improvement of the budget balance and the reduction in public debt, this will place the governments in a more favourable light than they would deserve according to the governmental actions. During a year like 2001 when the growth rate in most countries will be lower than expected, policies might be judged as appropriate or turn out to be too contractive.

4.2.2 Furthermore, the growth rate very much depends on actual policies. A policy that takes away purchasing power will reduce consumption and, in the end, growth. Such interdependencies really make assessment of the policies very difficult.

4.2.2.1 The Commission makes bold efforts to separate the effects of growth from the effects of political measures. The faster than expected overall reduction in deficit was mainly a result of faster than expected growth. Furthermore, effects resulting from lower public interest payments and effects of automatic stabilisers are separated from the effects of discretionary measures. The effects of the discretionary measures then turn out to be only 0.1% of GDP. The measuring problems are overwhelming if we were to attempt to measure the effect of each action separately. The social contribution rebate in Spain for example corresponded to only 0.1% of GDP. How could the effect on GDP from this change be assessed separately when it was taken together with a lot of other measures?

4.2.3 Furthermore, different political conclusions can be drawn from the figures. The Commission finds that the three countries with persistent large deficits did not improve their positions during years of good growth. But they do not explicitly comment that the same countries had among the lowest growth rates and therefore were in a situation where economic stimulation could seem justified. If they had not used the possibilities to stimulate their economies during these years they would today have a worse economic situation but on the other hand a better possibility to counteract that. Assessment of policies is more difficult if both the nature and timing of measures are considered.

4.2.4 Most countries have reduced their public debts during the last years. But considering the high growth rates this was not an especially glorious achievement. We can take Belgium as an example, with a reduction of 5.5 percentage points during 2000. Of this, 4.5 percentage points can be attributed to the mathematical change of the value of the debt as a percentage of GDP when the growth rate is higher. There are no figures on how much of the debt reduction in the euro countries which in fact was real payments of debt. The Commission comments on the Spanish debt ratio reduction during 2000, of which 2.5 of 2.7 percentage points was attributed to the growth rate, but we would like the Commission to provide us with such figures for all countries.

4.3 Automatic stabilisers

4.3.1 When the budget deficit is lower than 3% of GDP (or rather when budget balance is achieved) the question arises whether the automatic stabilisers can be allowed to work freely. But how much of the cyclical stabilisation can come from the automatic stabilisers? Can they be improved?

4.3.2 There is a general view that automatic stabilisers⁹ have the greatest impact when the structural problem (shock) is on the demand side. For example, some progressive taxes and unemployment benefits have a smoothing effect both in an economic downturn and in recovery counteracting the effects on personal income. They are most efficient for shocks affecting consumption and less efficient for shocks related to investments or external demand. Shocks on the supply side are said to have effects on inflation and output in opposite directions. A higher oil price e.g. will raise inflation and lower output. An automatic stabiliser is hard to find when it, in that case, should be both expansionary and contractive.

4.3.3 There are also large differences between countries as to the sensitivity of the public budget to cyclical changes. An economy where the public sector is highly affected by cyclical changes via the automatic stabilisers also has a possibility to achieve more through its economic-policy changes. The sensitivity goes both ways – from the business cycle and from the political actions. These countries often have advanced social security systems.

4.3.4 This leads us to the statement that it is impossible to have any general opinion on the use of automatic stabilisers. The Commission has made calculations to find appropriate target levels of budget deficits/surpluses to aim at over the cycles which differs between the countries. The more volatile the economy, the higher the surplus which is required. After the fixing of such minimum levels, new target levels have been set which would allow for automatic stabilisers to operate freely.

4.4 Investments

4.4.1 Many kinds of public spending can have positive effects on both growth and employment. This is the case for "traditional" expenditures, e.g. on education, health, regional transfers and social policy. Their quantity and quality provide the foundation for a modern growing economy. Despite their importance, most attention is given to research and private as well as public

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For a discussion on automatic stabilisers, see the ESC opinion in OJ C 139/60 (11.5.2001).

investments. The Lisbon conclusions, followed up in Stockholm, outlined the political ambition to improve these policies. Too short a time has elapsed not only for the results on growth and employment to be evident, but also for all proper actions to have been taken. The search for relevant indicators of these actions is a first step, not yet fulfilled.

4.4.2 There are large differences between the euro states concerning both research and development expenditures and investment. In spite of these differences, it can hardly be opposed that all countries should pursue policies which increase the share of GDP for these expenditures. Although we cannot judge the impact of recent measures, earlier experiences provide clear evidence of the efficiency of measures in these areas. The high expenditures on information technology (training, networks, usage) and research in this area e.g. in the USA and the Nordic countries are concomitant with increased growth rates and levels of employment.

4.4.3 There is a statistical dilemma as statistics of investments only take account of physical investments. Statistics should be developed so as to include investments in human capital. There is a huge problem of measurement, as we then have to find a dividing line between "ordinary" education expenditures and education and training expenditures that increase the production power. One possibility would treat all education and training costs incurred by the **companies** (although it can partly be paid for publicly) as human capital investment.

4.4.4 The bulk of investments are private and these are the main determinants of growth. But turning to public physical investments, also important for growth and as a complement to private investments, there is a complication with the construction of the SGP. A country with a high percentage of GDP going to public investments, which is recommendable, will have a greater problem finding a budget balance as the reductions in other public expenditures will be larger to counteract the "extra" public investment expenditures, insofar as these are not financed from outside the budget and are not therefore subject to the assessment of the SGP. In such a case the EMU convergence criteria may reduce public investments. During the 1990s, reductions in public physical investments accounted for as much as one third of the reduction in public budget deficits, thereby reducing their share of GDP from 2.9% (1991) to only 2.3% (1999)¹⁰. This is economically even more absurd as such expenditures would increase the growth rate and in the end make it easier to fulfil the objectives of the SGP.

4.5 Tax system changes

4.5.1 The positive effects from research and investments are hardly questioned, but results for growth and employment from changes in the tax systems are not always generally accepted. The taxation system has effects on the willingness to work, save and invest. The effects do not only come from the level of taxation but also from its composition. Some examples are given below but, as the Commission states, the results have so far been mixed. Generally it can be said that it takes a long time – a couple of years – for the effects to appear and the changes have to be quite substantial to affect our behaviour.

¹⁰ Gross fixed capital formation of General Government EU15, Eurostat.

4.5.2 Furthermore, changes in the taxation systems must be seen in a broader sense where also the benefit systems are included. The interaction between taxes and benefits has to be seen as a whole when the impact on employment and growth is examined. Moreover, a search for increased employment through changes in tax and benefit systems requires a concomitant change from passive to active labour-market measures to make possible an increase in labour-force participation.

4.5.3 We cannot consider the whole problem of the ageing population in this opinion but we would like to stress the increased emphasis on debt reduction that it entails. In some countries this can be said to have made it more difficult in a downturn to achieve a shift to more of counter-cyclical policies.

4.5.4 During the years before the third phase of EMU, tightening of economic policy was very pronounced. The tight policy has continued but the pace has slowed down since the need diminishes when budgets are almost balanced and since the reforms are starting to bear fruit. In most countries the changes have involved both expenditure cuts and tax cuts, thereby reducing the relative size of the public sector. In some countries the tax changes have taken the form of changes in the tax collection system or in tax bases so that tax revenues have increased without tax rates being raised. The fairness of tax systems has thereby increased.

4.6 **Employment**

4.6.1 To find statistics on employment trends we have to turn to publications like "Employment in Europe". This in itself is a sign that the inclusion of employment in summit conclusions has not found its way into all the Commission services. Employment effects are not really considered when the economic policies of the euro countries are judged.

4.6.2 Spain, Belgium and Ireland experienced a fall of unemployment of more than 1 percentage point per annum during the two-year period 1999-2000. Belgium and Ireland achieved this although they did not start from an especially high level of unemployment. Eight of the 12 countries fell short of a possible goal of -1 percentage point per annum and three (Austria, Luxembourg and Portugal) only came halfway but they already had the lowest unemployment levels.¹¹

4.6.3 Instead, looking at the development of the labour force participation rate the fastest increase occurred in the Netherlands, Ireland, Luxembourg and Spain. The smallest increases can be found in Austria, Germany and France. There is no clear relationship between the changes in the activity rate during these years and the starting point for this rate. More factors must be sought for to explain the differing performances.

¹¹ Luxembourg is a special case where a good development in the labour market to a great extent affects the neighbouring countries.

4.6.4 Spain appears to be the best performing during these years although starting from the highest unemployment and a low activity rate. Austria has the poorest performance but starting from a low unemployment and high activity rate¹². There may be differing reasons for the different trends but there seem to be a convergence for these aspects of the labour markets.

4.6.5 Looking for the reasons for the differences, the growth rate is a natural explanation. We can also see that high growth rates are strongly correlated to favourable employment developments.

4.6.6 But the sometimes contradictory developments for the national labour markets call for deeper studies of the reasons for good and bad performances on the labour markets. Some of the explanations can be found in the discretionary economic policy measures of the 12 countries. A supporting document¹³ drawn up by the study group describing economic policies country by country led to the conclusion that these seem to be special for each country.

5. **Inconsistent recommendations**

5.1 If other policy areas are considered, and not only BEPG, the recommendations in 2001 for some countries are not consistent with the expansionary policy which the lower growth rates would justify. In its general assessment of the economic situation (monetary and cyclical) the Commission is mainly concerned about the countries that experience overheating and inflationary pressure. For the countries with an inadequate demand for an acceptable economic growth to evolve there is no outspoken corresponding concern. This goes for most governments as well. Economic policy can in general be said to support the common monetary policy in high growth periods, but there is a risk for conflicts between them in periods of low growth. This gives us great concerns about the current economic situation and the corresponding economic policy recommendations.

5.2 There is seldom any consideration of the effects of one country's policy on the other countries, only on the general situation for the euro area. And it seems to be more of a mathematical relation, summing up the national figures for inflation etc., than an economic calculation of the factual relations between the 12 economies. This can be illustrated by the Irish example. The Ecofin recommendation to Ireland to pursue a less expansionary policy, can well be defended when one considers the Irish economy itself. But the effects on the euro area from that over-expansion are negligible. The Irish economy is so small that it will not in any recognisable way influence the inflation target. Irish trade is very much directed to countries outside the euro area (e.g. the UK) so the trade impact on its euro partners is also negligible.

5.3 During years of high growth, good results for unemployment and employment rates are easily achieved, as they go hand in hand with the growth rates. In a situation of low growth, it is much more complicated. With growth under 3%, employment will not automatically increase and

12 Idem

13 CES 1382/2001 Appendix (internal ESC document)

with continued emphasis on the budget balance there is a clear risk that the policy chosen can lead to higher unemployment. Therefore, growth rates and employment development must also be in the centre of economic policy discussions. Actual economic tendencies are now so clear that this change has to be reflected in documents from the Commission and decisions of the Council.

5.4 Since parts of the objectives of the SGP are included in the treaty, recommendations emanating from them carry a greater weight than objectives which are merely adopted at Council meetings. This difference in legal base should not have such an impact on actual policy recommendations. Recommended policy actions ought to be based more on economic arguments than political considerations.

6. A new frame for the objectives

6.1 The Commission reports and Council decisions clearly gives the impression that price stability, budget balance and debt reduction are the main objectives. In order to draw a general lesson from the first years of the euro we find it important to try to fulfil the set of objectives in the SGP to be able to build a policy-mix which takes all economic policy objectives into consideration.

6.2 The effect *from* growth on these objectives is carefully calculated. What is missing is the impact of economic policy *on* growth and employment. That seems to be the main reason why our recommendations often tend to be more on the expansionary side. A reduced budget surplus or an increased deficit might very well be recommended if one's consideration is for both the fiscal stance and the growth and employment. Therefore a medium-term objective of at least 3% growth stated in summit conclusions could also be included in the BEPG and the SGP.

6.3 At Lisbon, a long-term objective for employment was set - reduce unemployment so as to achieve full employment. For the employment rate the long-term objectives were set to 70% for men and 60% for women. These long-term objectives should be reflected in SGP as medium-term objectives with the purpose to stimulate policies which aim at achieving the long-term objectives.

6.4 With some years of practical experience of the SGP there can now be time to assess experiences so far and refine this foundation for economic policy in the euro-zone countries. In addition to the proposals above, the Committee would like to underline some principles of flexibility for the year-by-year policy recommendations:

- the objectives should be considered as **medium-term** objectives so that the outcome for each separate year should be judged accordingly;
- **business-cycle considerations** should always be taken into account;
- **short-term** assessments for each Member State should always depend on how close it is to the **long-term** objectives;

- they should, as well, be considered in relation to the **demographic development** of each Member State.

7. Concluding remarks

7.1 Some general remarks are that there is a strong need for a more coordinated economic policy, including a strengthening of the macro-economic dialogue, and also a need for more flexibility in the policy recommendations in the SGP process. But we also want to point at some good **national** examples, which at the same time fulfil the requirements for budget balance, debt reduction, inflation rate and growth and employment targets. And the search for a consistent policy should also include targets for reforming pensions' systems so as to allow for the ageing population and financing public investments in key areas according to the Lisbon summit.

7.2 One obvious implication is that measures to keep the growth rate high might be more efficient for debt reduction than measures to actually pay the debt by running up large budget surpluses. A policy for high growth rates, therefore, is the best debt-reduction policy.

7.3 Some of the examples can be classified as structural reforms, with a long-run effect while others are rather counter-cyclical measures. In Greece the measure to combat tax fraud e.g. with a negative income tax, seems to have been efficient. The tax cuts in Germany, both the income tax and the company tax, can be considered as good examples of counter-cyclical actions, although that was not their primary purpose. In Belgium the expenditure ceilings and the agreement with regional and local authorities had a great effect on the budget balance. The Dutch formula for distribution of growth effects on the public budget between tax reductions and public debt reductions is interesting to follow. Although perhaps fair from a distribution perspective it might be questionable as a stability measure for the business cycle. On the whole, the Finnish budgetary policy seems well calibrated to keep the tight policy needed, despite sharp changes in revenues and expenditures, in a situation of easy monetary conditions and high growth.

7.3.1 Some countries have introduced changes in the taxation systems to reduce tax evasion and to increase the tax bases. These measures have not only turned out to be efficient, but they have also meant a convergence in the construction of taxation systems. These kinds of changes are very important and ought to continue.

7.3.2 Several countries have introduced reductions in different tax rates. Because of the high growth rates they have not resulted in reductions in tax receipts. The receipts have instead continued to rise. With lower growth rates such increases will hardly continue and will probably turn into reductions. The demand effect of these tax-rate reductions might have been realised already but the searched-for supply effects take some time to materialise. They might unfortunately appear in an economic setting when it is the demand side that ought to be supported. This highlights the severe timing problems of tax changes.

7.3.3 Along with the probable convergence in tax bases and reduced possibilities for tax evasion there now seems to be an actual shift from taxes on labour and income to other taxes. There is

a small but evident tendency to tax systems convergence both in the constructions of the systems and in the rates.

7.4 Some countries have introduced expenditure ceilings in one form or other. They can solve some problems, e.g. help to reduce the tendency for public expenditure to be increased routinely when greater public resources become available. The system can be said to be "election-proof" as the ceilings often are decided upon in advance and by unanimity. At the same time they can create other possible problems such as always using changes on the revenue side when counter-cyclical actions are needed, as the expenditure side is fixed beforehand for several years. It is also more inflexible when some fundamentals behind the ceilings change.

7.5 These are a few of the "good examples" that can be found - some specific for a certain country, some quite general. It must be stressed that although good in one country, they are not necessarily good in all the others. The economic situation for one country might differ so much that what is efficient there might be inefficient or undesirable in another. Therefore, the examples of policies in this opinion and the comments for their use in one or several countries are worth discussing in all euro-zone countries but their actual application must depend on the situation in each country.

Brussels, 21 March 2002.

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