
The EEAG Report

on the European Economy

2012

RECOMMENDATIONS FOR EUROPE

Chapter 2: THE EUROPEAN BALANCE-OF-PAYMENTS PROBLEM

- **Introduce ‘euro-standard’ bills:** “Each country issues short-term treasury bills satisfying strict common standards, which are to be jointly supervised, so as to share the same risk profile. These bills would be collateralised with future tax revenue or real estate and standardised. Although each state would still retain full responsibility for servicing its own debt, in the new regime these nationally differentiated bills with strict common standards would trade within a few points from each other, providing the common financial asset for the ordinary operations of the ECB.” (see page 79)
- **Settle Target balances:** “Systems that effectively discipline Target credits are good for the future ...” (see page 80)

Chapter 3: BANKING REGULATION

- **Promote European financial integration:** “Burden-sharing agreements for bank resolution are needed, as well as a European resolution and supervisory authority.” (see page 91)
- **Give national central banks a supervisory role:** “Macro-prudential supervision should be led by the central bank and closely coordinated with micro-prudential supervision.” (see page 91)
- **Redesign the euro area’s financial architecture:** “A possible configuration of the euro area financial architecture along the lines of the new UK model would be to pull the European Systemic Risk Board and the European Banking Authority (and even the European Insurance and Occupational Pensions Authority) as a subsidiary under the wing of the ECB and keep a developed European Securities and Markets Authority independent.” (see page 92)

Chapter 4: LESSONS FROM SWEDEN

- **Develop a culture of fiscal transparency and public debate:** “Well-defined fiscal objectives, fiscal transparency and a qualified economic-policy debate may be more important to fiscal discipline than binding rules and automatic correction mechanisms.” (see page 113)
- **Frame budget decisions in the right way:** “A well-defined process for evaluating the scope for active tax and expenditure decisions may be of great importance”. (see page 113)
- **Promote output growth to boost fiscal sustainability:** “High output growth greatly facilitates fiscal consolidation. In the long run this requires growth-enhancing reforms. In the short run, the ability to achieve large real exchange rate depreciation, stimulating net exports, is of paramount importance to open economies with serious competitiveness problems.” (see page 113)

Chapter 5: LESSONS FROM HUNGARY

- **Decouple fiscal policy from election cycles:** “A fiscal policy that varies strongly with the election cycle may sufficiently increase uncertainty in an economy to have a negative effect on investment, which ultimately reduces total factor productivity and economic growth. Hence the creation of a fiscal framework that ensures prudent and sustainable fiscal policies is not only important to avoid financial crisis, but is also important to ensure sustained growth.” (see page 128)
- **Set up independent fiscal watchdogs to ensure fair-play:** “The Hungarian crisis indicates that an independent national fiscal watchdog may be an important component of an effective fiscal framework.” (see page 128)
- **Introduce stronger enforcement mechanisms:** “The European Union lacks mechanisms to enforce ‘good behaviour’ on the part of its member states in the short run. Hence actions undertaken by some member states may have negative spill-over effects on other members. Without enforcement mechanisms, it is hard to see how the European Union can handle a crisis the next time one occurs.” (see page 129)

Chapter 6: PRICING CLIMATE CHANGE

- **Do not treat different renewable energy technologies inconsistently:** “Learning externalities may differ between different technologies, but are not large enough to motivate any substantially different treatment of them. Both different technologies and mitigation efforts, however, are currently treated inconsistently by individual EU member states. The European Union should swiftly harmonise these policies.” (see page 145)
- **Promote mitigation and introduce a common CO₂-tax:** “A first and simple step would be to introduce a common CO₂-tax.” (see page 145)