



Aims & Scope

Editorial Board

Instruction for Authors

Printed Copies

Partners

Referees

Contact us

QUICKSEARCH

TABLE OF CONTENTS ALERT

Do you want to receive an email alert about new issue?

Email

Subscribe Unsubscribe

INDEXING

CEEOL DOAJ EBSCO EconLit RePEc

OUR SPONSORS



CHARLES UNIVERSITY
IN PRAGUE

THE **EVROPAEVM**

Karolinum

VOLUME 1, ISSUE 1

[Home](#) > [Past Issues](#)

A Fiscal Rule that Has Teeth: A Suggestion for a Fiscal Sustainability Council Underpinned by the Financial Markets

[Hedbávný, Petr](#); [Schneider, Ondřej](#); [Zápal, Jan](#)

Year: 2007 Volume: 1 Issue: 1 Pages: 32-53

Abstract: In this paper, we set out to examine an efficient fiscal-policy framework for a monetary union. We illustrate that fiscal policy's bias toward budget deficit only temporarily ceased at the end of the 20th century as European countries endeavored to qualify for euro-zone membership, which compelled strict limits on budgetary deficits. We then explore which mechanisms might instill a sense of fiscal discipline in governments. We find that most mechanisms suffer from the incentive-incompatible setup whereby governments restrict their own fiscal-policy freedom. We argue that even multilateral fiscal rules, such as the EU's Stability and Growth Pact, suffer from the same endogeneity flaw. Consequently, we argue that a fiscal rule must incorporate an external authority that would impartially assess fiscal-policy developments. Using U.S. debt and bond-market data at the state level, we show that financial markets represent a good candidate as, vis-à-vis the American states, they do differentiate state debt according to the level of debt. We thus argue for a fiscal institution – what we call the Fiscal Sustainability Council– that would actively bring financial markets into the fiscal-policy process, and we explain the technique whereby this could be effected.

JEL classification: E6, H6, H87

Keywords: fiscal policy, European Union, sustainability

RePEc: http://ideas.repec.org/a/fau/aucoz/au2007_032.html

[DOWNLOAD](#) [PDF]

[Print](#) [Recommend to others](#)