

DESIGNING A EUROPEAN FISCAL UNION: LESSONS FROM THE EXPERIENCE OF FISCAL FEDERATIONS

A Map of Relations between Central and Subnational Fiscal Authorities

*A conference organized by the Ministry of Economy and Finance of France
and the Fiscal Affairs Department of the IMF
Paris, September 10, 2013*

The Great Recession has brought to the fore the question of the role of central governments in countries with a decentralized fiscal framework. Attention has focused, in particular, on the instruments they can use to safeguard macroeconomic stability and more specifically, the sustainability of public finances. A study of the practices of thirteen federations across the world, of different size and income level, helps shed light on this critical policy issue. The insights can be of interest for the European Union, that although not a federation, faces challenges that closely mirror those faced by the central and subnational government levels in federations—and where the move to more intense forms of fiscal integration is the source of an active debate.

9:30-10:00 am	Introductory remarks: <i>P. Moscovici, Ministry of Economy and Finance</i> <i>C. Lagarde, Managing Director, IMF</i>
10:00-11:15 am	To Centralize or Not to Centralize: The Distribution of Fiscal Responsibilities in Federations. Notwithstanding the benefits of decentralization, key fiscal functions are allocated to the center. In practice, what functions do federal governments retain and hence, what if the typical size of the central budget? When fiscal policies are decentralized, are they usually harmonized across levels and regions—and if yes, how? And what role do transfers from the federal to the subnational governments typically play? <i>Presentation: M. Guerguil (IMF)</i> <i>Discussants: M. Bordignon (UNICATT), A. Fatas (INSEAD)</i>
11:15-11:30 am	Coffee break
11:30-12:45 pm	To Constrain or Not to Constrain: Institutional Arrangements across Levels of Government. Because the vertical structure of the government can raise moral hazard and bailout expectations, fiscal federations often introduce explicit institutional arrangements to ensure that fiscal policies at different levels of government are mutually consistent. What types of arrangements are most frequently used, what degree of constraint do they entail, and how effective have they been? Do matching arrangements exist at the procedural level? Have practices evolved over time? <i>Presentation: L. Eyraud (IMF)</i> <i>Discussants: D. Sutherland (OECD), C. Wyplosz (Graduate Institute)</i>
12:45-1:45 pm	Lunch
1:45-3:00 pm	Below the Line: Subnational Debt and Subnational Debt Crises. Common borrowing by the central and subnational governments is unusual in federations, but financing linkages do exist across government levels. What form do they take and how do they impact the size and cost of subnational debt? What have central governments done when subnational entities have faced financing difficulties? What arrangements exist to prevent and resolve such problems? <i>Presentation: M. Moreno-Badia (IMF)</i> <i>Discussants: R. Beetsma (University of Amsterdam), T. Philippon (NYU)</i>
3:00-3:15 pm	Coffee break
3:15-4:30 pm	Lessons from the Crisis: Minimal Elements for a Fiscal Union in the Euro Area. The crisis has revealed critical gaps in the functioning of the European Monetary Union. What are these gaps? What role can deeper fiscal integration play in correcting architectural weaknesses in the system? What are the minimal elements of a fiscal union that would reduce the incidence and severity of future crises? <i>Presentation: C. Allard (IMF)</i> <i>Discussants: V. Gaspar (Bank of Portugal), R. Strauch (ESM)</i>
4:30-6:00 pm	Looking Forward: Insights for the European Union and Beyond. The experiences of fiscal federations reveal some regularities but also recurrent challenges and difficult trade-offs. What lessons can be drawn that would minimize future risks to fiscal sustainability? Can these experiences shed some light on the path to fiscal integration in the European Union? <i>Panel discussion: M. Buti (EC), C. Cottarelli (IMF), R. Fernandez (France), C. Monticelli (Italy), J. Moran (Ireland), T. Steffen (Germany)</i> <i>Chair: A. Vitorino (Notre Europe)</i>
6:00-6:15 pm	Concluding Remarks