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BUDGETARY DISCIPLINE AND MACROECONOMIC POLICY IN THE EUROPEAN UNION

Are the stability pact and the Lisbon strategy compatible?

Seminar organised in Paris on 8 March 2003 by *Notre Europe*

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The association also organises meetings, conferences and seminars in association with other institutions or partners. Proceedings are written in order to disseminate the main arguments raised during the event.

FOREWORD

At the beginning of the year, many reasons led Notre Europe to consider that, within a constitutional framework, the time had come to reflect on the coherence between the Lisbon strategy signed by the heads of state and government in 2000 and the Stability and Growth Pact that aims at ensuring the stability of the European currency in the short run. This intuition led us to organise last March a seminar of experts on the issue.

The objective was to contribute to a debate about economic governance within an enlarged Europe that, to say the least, was developing slowly, a fact confirmed by the lack of progress made by the Convention on this matter. The most recent facts have confirmed our intuition: The rules of the stability and growth pact were deeply called into question by those that had imposed them, the same that still mention the insufficiency of economic growth, which at least has the merit of showing the hypocrisy of the "stability *and growth* pact". Indeed, economic growth is the objective of the Lisbon strategy which, as I realised at the recent Congress of the European Trade Union Confederation, is starting to suffer from a lack of credibility due to the absence of mechanisms to put it in practice.

Therefore, between the stability and growth pact rules, that some qualified as "stupid", and the demand for growth (which implies employment) that benefits from an indisputable legitimacy in the public opinion, is a new "democratic deficit" that would be very dangerous to play. If this risk was perceived during the seminar, it should be recognised that the possible answers remained rather vague, such as the assessment of the quality of spending or the issue of having the necessary financial resources to put in place the Lisbon strategy.

The clearest conclusion, as invoked by Robert Goebbels, is that we are missing the necessary instruments to lead us, in a credible way, to the prosperity to which citizens aspire. Like him, I think we do not need to reinvent something that works but to finish what was left unfinished: a pact of co-ordination of economic policies and a programme to ensure the financing of trans-European networks which was proposed ten years ago by the White Paper for Growth, Competitiveness and Employment that an enlarged Union will need now even more than before. We have, in a word, to get away from a certain "single thought" to renew with imagination.

Jacques Delors

CONTENTS

I - PRESENTATION

The Lisbon Strategy and the stability and growth pact

Hugo Zsolt de Sousa

The stability and growth pact was adopted in 1997 and derived mainly from the political imperative of ensuring to Germany and the Netherlands that the performance of the Euro would be closely linked to the DM. Indeed, at the very beginning it was thought the new currency would be adopted only by the core EU countries, but later the actions undertook by some peripheral EU countries in order to meet the EMU criteria implied that the new currency would be formed by countries that did not have a history record similar to the DM. Therefore, it was perceived as essential to adopt a pact that would ensure the sustainability of public finances in the future EMU zone with the aim of avoiding higher interest rates. Hence, the pact can be both justified on the basis of political and economic arguments, as it served to take into account the German fears as well as it provided a good basis to prevent free riding within the monetary union that was about to be formed. The stability pact was than added a growth component, or better saying, the word "growth" by the insistence of the French President.

The stability and growth pact was relatively successful when the European economy was booming. It allowed for the lowering of budget deficits in most EU countries and the EMU area was achieving sound economic growth levels. However, recent events like the first economic downturn since the EURO has been launched have reopened the debate regarding the effectiveness of the stability and growth pact. In fact, three countries (Germany, France and Portugal) have already surpassed the budget ceiling and two other countries (Italy) are seriously approaching the reference value. At the same time economic growth declined sharply, unemployment has been going up in some countries, which is the opposite of what the Lisbon strategy claims for, and inflation remains sticky. This budgetary situation has led to action from the Commission against Germany and Portugal and an early warning was sent to France. This resulted in a situation whereby some countries pursue austere economic policies to get back in line with the pact rules while others neglect it and pursue economic growth oriented policies.

Moreover, in 2000, under the Portuguese Presidency, a new European strategy was adopted. The Lisbon strategy aims at placing Europe as the most competitive and knowledge based economy by 2010. This is a rather ambitious objective that will demand a high involvement of all players concerned (Governments, private agents and social partners). Lisbon is however far from being reached even if some progress has indeed occurred. Some examples of such a progress include the agreement on a European patent, the single European sky and the increase in employment levels in the EU. However, recently unemployment has once again started to increase making it more difficult to reach the employment rate targets that have been agreed in 2000 in Lisbon. Despite the evident difficulties countries are experiencing while trying to reach the Lisbon objectives, countries cannot rely on fiscal policy to foster investment in education, life long learning and knowledge as that might jeopardise the SGP. Hence, the issue as to whether the current stability and growth pact is compatible with the Lisbon strategy assumes a pivotal importance for the future of economic policy in the EU.

Therefore, the topic of this seminar is precisely to see the extent to which the current stability and growth pact is compatible with the Lisbon objectives. Does the current stability and growth pact moves alongside Lisbon or against it? Do Governments have the capacity to achieve Lisbon or does the pact act as a constraint to such an objective? Or does Lisbon simply set very ambitious objectives that cannot be realistically achieved? Is there a need to a more active budgetary policy (more public expenditure) or will the automatic stabilisers do the job? Does the pact need to be reformed so as to achieve Lisbon or should Lisbon be dropped?

These and other questions are at the core of the present European Economic policy discussions and its effectiveness depends partly on their answer.

II – SUMMARY OF THE CONTRIBUTIONS

Jean-Louis Arnaud

According to the title of the seminar, "The Lisbon strategy and the stability and growth pact", the question put to participants related to the compatibility between the pact adopted in 1997 to ensure budgetary discipline in the countries taking part in economic and monetary union (EMU) and the ambitious objectives set by the European Council at its meeting in Lisbon in March 2000 in order to take Europe fully into the information society by developing, in the space of ten years, "the most competitive and dynamic knowledge-based economy in the world".

Is the pact consistent with the Lisbon objectives? In other words, are they both pointing in the same direction or are they contradictory? There appear to be no arguments supporting the view that the pact in itself is incompatible with the Lisbon strategy. In terms of their principles, at least. Such was the assessment of Carlos Martínez, a member of the staff of Commissioner Pedro Solbes, who added that he was speaking in a strictly personal capacity.

He indicated that the pact leaves governments entirely free to act on competitiveness, employment and social cohesion along the lines set out by the Lisbon strategy. They are also free to redirect public spending in order to promote capital accumulation in any given area. But could the pact not be put more actively at the service of the new strategy if it were interpreted in a different light than is the usually the case today? Mr Martínez is inclined to think so, on the basis of a report on "Strengthening the coordination of budgetary policies" issued by the Commission on 27 November 2002. In any event, he believes a small underlying deficit could be envisaged if it were used to undertake far-reaching structural reform geared to developing employment and growth potential in accordance with the Lisbon strategy.

Along the same lines, Maria João Rodrigues believes the pact could play a useful role in promoting the use of public finances for growth and employment – provided that public spending is channelled into the right investment, a difference is made between current expenditure and investment expenditure, and tax measures are used to boost innovation and labour.

In economic matters, however, the short-term economic situation and how it evolves are key. Given the state of the European and global economy today, participants had more to say about the controversial effect the pact has had on a disappointing economic environment than about the low ranking of the Lisbon objectives among the strategic priorities of the 15 Member States.

In a depressed economic climate, complying with the pact's criteria has become increasingly painful – even for those members, such as Germany in particular, who fought to impose them in the first place. Hence the criticism levelled at the criteria, that has been quite sharp in some cases since they have even been deemed to be "stupid". Hence also the attitude of certain large countries such as France, which is paying little heed to the warnings it is getting from the Commission.

A heritage of the monetary approach of Germany's Bundesbank, the pact has failed to be taken seriously by the Member States, observed Stefan Collignon, a German academic based at the London School of Economics. He went on to wonder whether the pact might not already be dead or, at least, whether it would be able to survive a prolonged slowdown in growth.

Noting that the pact has been attacked mainly by large countries – the United Kingdom, Germany, France and Italy – and that the resistance of the small countries alone would not suffice to save it, Tommaso Padoa Schioppa, a member of the Council of the European Central Bank, nonetheless argued that it should be maintained. He pointed out that laxity and the temptation to escape budgetary discipline are dangers that must be taken seriously, and suggested that the practical implementation of the pact is what needs to be improved.

As for the Lisbon strategy, Mr Padoa Schioppa indicated that common objectives by themselves are not enough. There must also be a common decision-making and implementation capacity. That is something the EMU countries do not have: monetary policy is admittedly "European" but 90% of the fiscal policy is still conducted at national level and social policy is largely dealt with by the private sector. He deplored the European countries' tendency to form cartels and rely on a "national champion" strategy – two factors which curb competition to a considerable extent. He argued that a stronger central power is needed to break these cartels, and went on to invite the Europeans to restore competition while also giving themselves common budget resources in areas where they have common economic development interests.

Whether explicitly or implicitly, several participants touched on this need for budget resources to finance vital common measures in fields such as research, investment in leading-edge sectors and infrastructure development. According to Mr Collignon, the only solution would be to have a European government that set most of the fiscal policy. But in the absence of a federal budget – a prospect which remains unlikely in the near future – other procedures could be devised. For instance, the Union could intervene through national budgets that would contribute to Community buffer funds.

If we want national or Community public resources to be channelled towards the sectors identified as objectives, macroeconomic policy coordination is unavoidable. But this coordination must be more binding than a mere declaration on broad economic policy guidelines. That is a pre-requisite for any genuine investment policy.

Robert Goebbels, a member of the European Parliament and chairman of the seminar, reminded participants that at the Dublin summit, Jacques Chirac had had the word "growth" added to give more substance to the stability pact. The word is still there but the objective has remained a pipe dream, observed Mr Goebbels with some regret. He accordingly called for the pact to be given more muscle by being converted into a coordination instrument. In this connection, he also mentioned the proposals made by Jacques Delors: ten years ago, the then Commission president had called for the establishment of trans-European infrastructure financed through borrowing.

Several participants referred to the "golden rule"; most of them did so to draw a distinction between current expenditure and investment expenditure in the application of the stability pact and to call for making job-creating investment more open to public finance. But Mr

Martínez pointed out that applying the golden rule would lead to deficits, and that these would probably exceed 6%. Daniele Franco, a director at the Banca d'Italia, also clearly outlined the dangers involved. He stressed that distinguishing between current and investment expenditure can lead to all kinds of malpractice, as this distinction is often used to mask deficits that would otherwise be obvious.

One of the main questions raised, directly or indirectly, by participants involved the democratic nature – or lack of it – of the stability pact's workings and, more generally, of strategic economic choices.

James Galbraith, a professor at the University of Texas, pointed out that the United States' Federal Reserve regularly reports on its management to the relevant Congress committees and is not insensitive to the employment criterion. The European Central Bank has fewer constraints, observed Mr Goebbels, before noting that in the US the federal bank system can be changed by law whereas in Europe a treaty amendment is necessary to modify the ECB rules.

The British economist Ray Barrel remarked that to limit the volume of public debt and the pressure on interest rates, the UK government has also made a pact – with the population – that the debt cannot exceed 40% of GNP. Among the EMU countries, the pact is between governments, on the assumption that governments can impose penalties on one another. That remains to be seen. Under our democratic systems, governments are penalised by the people, through parliament or at general elections. So in the absence of democratic support as to its content and democratic enforcement of its provisions, does the pact – as contract between States – stand any chance of being respected if it entails sacrifices in terms of growth and employment? And can it survive a lasting economic downturn?

III – CONCLUSIONS OF THE PRESIDENT

Stability without Growth is like Irrigation without Water

Robert Goebbels

The Stability and Growth Pact (S.G.P.) was concluded in the early nineties in order to encourage Member States of the Euro zone to adopt a more strict budgetary discipline. The pact was successful, allowing enough economic and fiscal convergence to enable 12 EU-members to launch a common currency. But the current state of the world economy (with two deepening crises in the aftermath of the Iraq war) reduced growth and widened fiscal deficits, especially in the larger European economics (Germany, France, Italy). There was obviously not enough fiscal consolidation during the good years. But after 3 years of soft recession, plus an international financial system weakened by the implosion of the stock market bubble generated by years of irrational exuberance, it would be no less rational to force member states to cut down production expenses now and to raise taxes in order to have a balanced budget. After the soft recession, there is now a real danger of a world wide depression.

Fiscal stability is a public good. Nobody, not even a state, can live on credit indefinitely. Accumulating debts leads to a reduction of an action's scope. Political parties from the left - socialists and social democrats - must in particular stand for stability and the fight against inflation. Inflation, that is loss of buying power, mostly hits people with a low income, people that Socialists traditionally feel committed to.

That is why I advocate a strong state with a role in the economy that is both regulatory and stimulating. Certainly in times of economic recession or looming depression the state is called on to bring about growth. But the S.G.P. says nothing about a growth, it is only about stability. At the Dublin summit, when the stability pact was adopted, President Jacques Chirac simply asked to add the word "growth", but up to now, there is no growth component in the pact.

In addition to this, the pact is too much of a "one size fits all" approach. States with a debt of around 60 per cent of their GDP have more room to manoeuvre than states with a debt of more than 100 per cent of their GDP. Deficits in public budgets can be reasonable if they are used for productive investment and the stimulation of growth in times of recession. The United States and the United Kingdom do this at the moment. But in the medium term, balanced budgets must be the target.

There is an urgent need for a more flexible, a more differentiated application of the S.G.P. And there is an absolute need to pour much more water in the economic irrigation system of the European Union. The Commission is making heavy weather of proposals for more growth. There are no incentives for growth from the EU budget ,because it only accounts for one per cent of the European social product.

We need new initiatives in order to stimulate infrastructural expenditure in the EU, particularly regarding the future enlargement. It is high time to take up again the proposal of Jacques Delors of the early nineties and to set in place TransEuropean Networks through the European Investment Bank and/or by using European bonds. In order to finance this European infrastructure policy, we should reflect also on how to use the benefits of the European central banking system.

IV – CONTRIBUTIONS

Daniele Franco(*)

European Fiscal Rules and the Lisbon Strategy - The basic issue under consideration in this meeting is whether the Stability and Growth Pact (SGP) is compatible with policies aiming at making the European economy more dynamic, more competitive, more knowledge-based and more employment-friendly. It seems to me that there is no contrast between the objectives of the SGP and those of the Lisbon Strategy.

The SGP aims at combining sound fiscal policies with room for stabilisation policies. It operates via the 3% of GDP deficit ceiling and the commitment to achieve close to balance budgets over the cycle (Buti and Sapir, 1998; Brunila *et al.*, 2001).

Fiscal stabilisation may allow governments to smooth economic cycles and reduce the uncertainty and the welfare losses that would stem both from deep recessions and from periods of overheating. In the past, in several European countries fiscal stabilisation was frequently constrained by high deficits and debts.

Sound public finances reduce inflationary risks, create conditions for low interest rates and may allow governments to avoid abrupt fiscal adjustments (de Lima *et al.*, 2003).

In the end, fiscal stabilisation and fiscal soundness reduce uncertainty, limit policy induced shocks, foster long-term commitments and investment, and positively affect growth.

Revising the SGP? – While the SGP seems capable of combining fiscal soundness and stabilisation in the steady state, this does not apply to the European countries which have not yet completed the transition to the close-to-balance or in surplus positions. For these countries there is now a contrast between the need to support demand in the short term and the need to continue the consolidation process.

The Eurogroup agreement of October 2002 about a 0.5% minimum yearly improvement in the underlying balance for these countries is a reasonable compromise solution between the two needs.

However, it would not be wise to base the design of permanent arrangements on needs arising from transient circumstances. An assessment of the steady-state functioning of the SGP is essential in the search for solutions to the current tensions. If rules are considered necessary in a monetary union characterised by a decentralised fiscal framework and no alternative rule appears superior to the SGP, policy-makers should aim at safeguarding the SGP while improving its implementation and its incentive structure.

When monetary union was devised, the need for rules counteracting undisciplined fiscal behaviour was widely recognised. It was considered that fiscal misbehaviour would have undermined the credibility of the central bank's commitment to monetary stability and would

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have induced pressures by high debt countries for both *ex-ante* bail-out (refraining from raising interest rates under inflationary tensions) and *ex-post* bail-out (debt relief through unanticipated inflation). These considerations still apply, especially in a context in which 25 countries may join the monetary union.

The SGP is now criticised as being inflexible, discouraging investment, disregarding the aggregate fiscal stance and sustainability, working asymmetrically over the cycle, and treating equally countries in different fiscal positions. Several experts and policy-makers have argued that the SGP might be replaced by better rules (Buti *et al*., 2003).

Some of the criticisms are warranted, some are not. While each proposal tackles some of the problems highlighted in the debate, none solves all of them. In some cases, while solving a problem the suggested reforms may aggravate other problems.

If we were to design the European fiscal rules again from scratch, we might end up with rules not very much dissimilar from the SGP. The solution would still be constrained by the lack of a federal government, by the difficulty in implementing common budgetary decisions in countries with different institutions and procedures, and by the mistrust concerning the possible future fiscal policies of other countries. The concern over the issue of moral hazard in a multinational context would still be prominent. This concern calls for simplicity and transparency, that is for predefined rules that can be easily monitored.

In the end, there are no miracle solutions to the problems posed by having many countries retaining full fiscal responsibility in a monetary union. Only greater integration may allow more flexibility and more room for discretionary decisions.

Given the present constraints, it is likely that we would still design a rule setting numerical limits to the deficit level. It is also likely that we would have both a deficit ceiling and a target in cyclically adjusted terms.

Obviously, the values of the deficit ceiling and the target for the cyclically adjusted balance might be different from those indicated in the Treaty and the SGP. Moreover, one might consider excluding some budgetary items from the deficit definition.

The golden rule - In order to avoid the risk that EMU rules reduce public sector contribution to growth, the adoption of a golden rule has frequently been suggested. The rule would exclude investment spending from the computation of the deficit relevant to EMU fiscal rules. Proposals to exclude capital outlays from the operating budget and to include depreciation of government capital stock date back at least to Musgrave (1939).

It has also been argued that, in the current context, this would allow member states to loosen their fiscal stance, with benefits in terms of short run stabilisation.

Short run and long run issues should be separately dealt with. Concerning the former, the main issue is whether investment expenditure is the best budgetary item from the point of view of stabilisation. In this respect, the lags between the decision to undertake a project and the actual start up of the works and of the related payments would seem to suggest a negative answer.

As to long run issues, before calling for the exemption of investment outlays from budgetary discipline one should check: (a) whether the Pact negatively affects investment; (b) whether this effect indeed entails a reduction in public sector contribution to growth; (c) and whether the golden rule would be consistent with the objectives underlying present European fiscal rules.

Concerning the first point, a balanced budget reduces the possibility of spreading investment costs over the generations benefiting from them (Balassone and Franco, 2000). This can negatively affect investment decisions, especially concerning projects with long-term returns. Actually, the reduction in deficit levels recorded in EU countries in recent years largely benefited from cuts in investment spending. In relative terms, these cuts have often been higher than the corresponding cuts in other items. This tendency came to a halt after 1997. A similar pattern cannot be detected for the US fiscal adjustment, which occurred over a period of sustained GDP growth.

As to point (b), there are some reasons not to worry too much about a reduction in investment as measured in the general government accounts. First, most infrastructure expenditure is not under the responsibility of general government, so that a fall in general government investment does not necessarily entail a reduction in outlays related to major infrastructure networks (roads, railways, energy, water, telecommunications). Second, there are other budgetary items, such as those related to human capital formation, which may have a stronger impact on growth. Third, the evidence on the role of public investment on growth is not unambiguous. Some studies point to positive effects of public investment on growth, other studies point to mixed effects. The return on marginal projects may be decreasing fast. The recent Japanese experience is quite telling in terms of the contribution of high capital spending both to productivity growth and short-term cyclical developments.

Coming to the third point, the golden rule would increase opportunistic behaviour and monitoring problems since national governments would have strong incentives to include as many expenditure items as possible in the capital account. This is one of the reasons why the double budget has long been considered by economists and policy makers but has rarely been introduced (Lindbeck, 1968; Balassone and Franco, 2001).

It should also be pointed out that a consistent application of the golden rule would require the exclusion from the deficit of net investment expenditure, which is in the range of 1% of GDP in the major EU economies (for Germany see Wendorff, 2001). So for these countries, a well-defined golden rule would not imply a budget very far from balance. The situation would be more problematic for catching-up countries, which need higher investment levels. However, these countries may benefit from intra-EU transfers which fund part of infrastructure development. The need to estimate amortisation would introduce a further degree of arbitrariness in the evaluation of the deficit.

For these reasons, in order to ensure an adequate level of investment in public infrastructures, it is perhaps better to look for other solutions than the golden rule. First, during the transition to lower deficit levels, one may consider the introduction, at the national level, of safeguard clauses to avoid that fiscal consolidation efforts translate into investment cuts. Second, in order to ensure a larger flow of resources for public investment, private capital could be involved in funding projects of public interest. Third, more attention should be paid to the selection of projects so as to obtain a stronger impact for a given level of outlays.

An extended golden rule? – One of the main problems of the golden rule is the preferential treatment of physical capital vis-à-vis human capital. One can consider excluding from the deficit all items believed to contribute to human and physical capital accumulation. This solution would raise two difficulties.

First, it would allow very high deficit levels. Estimates by Modigliani and Padoa-Schioppa Kostoris (1998) estimate that in Italy gross public expenditure for human and physical amounts to 15 per cent of GDP; the corresponding net figure would be 5 per cent. This implies that the debt level in some countries might remain very high and that in other countries it might even increase.

Second, the broader the definition of public investment, the greater would be the room for opportunistic classification of public expenditure and for controversies about the amortisation of capital.

A temporary deficit allowance for structural reforms? – It has also been suggested to allow small deficits for countries implementing structural reforms determining short term budgetary costs and medium and long term benefits (European Commission, 2002). This possibility would allow governments to introduce tax reforms enhancing growth or pension reforms increasing the role of funded pension schemes and reducing the burden on PAYG schemes.

This proposal would raise some problems in the budgetary surveillance framework. There is a lot of uncertainty concerning the evaluation of the intertemporal budgetary impact of structural reforms. This means that several reforms could qualify as reforms providing medium and long term benefits.

Moreover, one should also consider that structural reforms do not necessarily conflict with sound public finances. First, some reforms do not involve budgetary burdens. Second, budgetary constraints can facilitate the implementation of reforms.

In order to avoid the monitoring problem stemming from the golden rule and from the evaluation of structural reform, it would be preferable to simply allow countries to run a small deficit (say 1 per cent of GDP). As suggested by the European Commission (2002), this possibility might be restricted to low debt countries.

The debt burden – The idea of running a deficit to finance investment projects or the implementation of structural reforms is based on the consideration that future generations would benefit from the investment or from the reform and should therefore share the burden.

But one should also consider that future generations inherit a higher debt. If the returns on public investment projects are not high or the debt negatively affect the economy (for instance via higher interest rates), future generations can actually be worse off (Lamo and Strauch, 2002). A higher debt would imply a higher tax burden and this might actually hamper growth and employment. Hiebert et al. (2002) find some evidence of a negative relationship between the size of government and growth in EU countries and note that improvement in budget balances may have supported long term growth.

The demographic context should also be considered. Close-to-balance budget would also allow EU countries to meet the worsening of the demographic situation after the year 2010 with smaller public debts and lower interest burdens. By making use of the current demographic breathing-space, governments would be able to meet on a sounder fiscal position the ageing of the baby-boom generation. This would smooth the required changes in social policies.

Microeconomic efficiency – Fiscal macro variables, like deficit, expenditure and tax to GDP ratios, are obviously important, but governments influence growth especially via microeconomic channels. They directly manage a large share of GDP and manpower. They affect the decisions to supply labour, to save, to invest and take risks. The efficiency in the use of resources in the public sector, the extension and design of regulations, the design of tax and social protection schemes can be more relevant than the size of the budget and the deficit.

There is an extensive literature about the implications of spending for education and research on growth, but returns can be quite different from country to country, from region to region, from school to school, and across education levels (Buysse, 2002). One would need a microeconomic analysis of each expenditure programme.

In other words, the overall public spending for education, investment and research is important, but even more important is the way each euro is actually spent.

Conclusions - The implementation of the SGP is meeting severe difficulties. In evaluating the possible solutions to these difficulties, one should consider that a permanent relaxation of fiscal rules does not guarantee that public finances will make the economy more dynamic, more competitive, more knowledge-based and more employment-friendly. On the contrary, higher deficit and debt levels can require higher tax levels and greater adjustments in the future, when the population will age further. Over the medium term, the effort to make public finances more growth and employment friendly must necessarily go hand in hand with the effort to achieve sound public finances.

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The UK Policy Position

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The Stability Oriented Macro Framework

The UK has designed a stability oriented framework for monetary and fiscal policy that is different from that in the rest of Europe. There is a widespread belief that fiscal and monetary frameworks should reduce uncertainty in the economy, and especially in areas where it impacts on the determination of output in the longer term. The UK framework addresses the volatility of inflation and output as well as their level, and also attempts to reduce financial volatility. Uncertainty is important everywhere in the economy, and it causes individuals to change their behaviour. Increased uncertainty raises risk premia and most importantly impacts on the level of output that can be sustained. The evidence points very strongly in the direction of uncertainty over inflation, equity prices, exchange rates and interest rates as being important in the growth process whilst it is not so clear that output uncertainty impacts on individual decisions. Financial uncertainty is influenced by uncertainty about the deficit and the debt stock, and their importance is a strong argument in favour of building the economic constitution around fiscal rules as in the UK and the Euro Area. Uncertainty about the debt stock also raises uncertainty about inflation prospects, as inflating a way an excessive debt stock is very tempting for governments.

There are many reasons for the government to make a commitment to a policy position, as these commitments raise credibility and change private sector behaviour. Pacts can be made with other governments or with the private sector in the country. They can be legally binding or they can be expressions of political commitment. Pacts are often justified in terms of the strategies that individuals might adopt when planning to react to others. It is common to analyse fiscal pacts in terms of simple games such as the Prisoner's Dilemma. (Neither confess – good outcome, self confess other not – reasonable outcome for self, both confess – bad outcome for both) where and enforceable pact would prevent parties moving to the suboptimal outcome.

Fiscal policies are set in a difficult political environment. There is a clear connection between the economic cycle and the deficit, in part because taxes and expenditures respond automatically to the cycle, but also because politicians find it difficult not to respond to the state of the economic cycle. To the extent that taxes fall with incomes and spending, and expenditure rises with unemployment, the government budget can be seen as a shock absorber. There are always pressures to increase borrowing over the cycle, but this inevitably puts pressure on interest rates, which is of concern to any government concerned about the medium term prospects for the economy. The real rate of interest in the economy is a price that reflects the balance of saving and investment, and an increase in government borrowing might be expected to put upward pressure on the rate. This in turn might lead to the crowding out of private sector investment and hence the reduction, at least in the long run, of production potential.

In order to give assurance that this debt will not rise and real interest rates will not be put under pressure the UK government has made a pact with the population that it will not allow public debt to rise above 40% of GDP, and it will manage to achieve this target by borrowing no more (and probably less) than the amount it spends on public sector net investment over the cycle. A credible pact between the government and its citizens assures them that the risks of it borrowing excessively in future are low, and hence anticipated real interest rates will be lower than they otherwise would have been. As a result UK output should be higher than it would otherwise have been in the medium term. The members of the Euro Area have felt more obliged to make pacts with themselves rather than their people, and have agreed that borrowing should not exceed 3 percent of GDOP unless they can come up with a good reason. It is hoped that this will keep debt under control, and in order to help the Pact has penalties associated with it.

The UK Fiscal System

The UK framework is different from that of our European partners in a number of ways. It has been redesigned with micro-economic efficiency in mind. The increase in the efficiency of the public sector is meant to increase the sustainable level of output. The Golden Rule, borrow only to invest, is now used to set limits on borrowing in order that the net asset position of the public sector does not deteriorate. There have also been widespread changes in the way the public sector is managed and how targets are set in order to move away from short term opportunistic decision making. There have also been attempts to keep tax rates as constant as possible over the business cycle for reasons to do with micro-economic efficiency.

In the mid 1990's the UK began decentralising parts of government policy to agencies and ministries and introducing the use of private sector management and budgeting techniques. We have now a system of public finances in the UK where an agency or a ministry is given a budget for three years along with output targets and it has the right to decide how to achieve those targets. It can employ capital or labour in the combinations it wants, at the time it wants. What happens to the fiscal stance is no longer just a macroeconomic decision, but is driven by a desire for efficiency in use of resources. As a result of the change to decentralised budgeting the UK has in the last few years had some serious problem with implementing its overall fiscal policy and has not managed to spend the money it said it was going to spend. In particular increases in public sector investment have been continually delayed. However, the system of decentralised budgeting does appear to have been a success.

The UK government is also persuaded that there is a very strong case, especially for income tax, for setting an announced and constant tax rates over the cycle which are to be revised only if they are very strong reasons for doing so. This allows individuals to plan their labour supply in an optimal way over time. These policies may maximise welfare, but they reduce the government's ability to change tax rates or spending for macroeconomic purposes.

The Golden Rule, borrow no more than you invest, that we use in the UK as the centre of our macro-economic fiscal strategy also has its foundation as a micro economic concept, and it is designed to ensure the efficient allocation and use of resources and consumption over time: If the government decides to invest in order to produce services for individuals in the future, there is a good case for it borrowing in the capital market in order that the price of capital in the economy as a whole reflects the level of investment in the economy. If it raises taxation to pay for investment then we may have too much investment and not enough consumption, which reduces welfare. The Golden Rule is designed to ensure that the transformation of costs over time and the transfer of consumption between time periods reflect optimal decision making.

The UK government framework is designed to increase efficiency and output and macro policy and stabilisation are seen as at best an additional role for government. As such it directly addresses the Lisbon agenda and is designed to raise output and reduce unemployment through the efficient use of resources, and not through expansionary macro policies. However, the system has its faults. The level of borrowing and the tax rate are meant to be constant over the cycle, but it is for the government to decide when it thinks the cycle will end, and hence many of the decisions its makes will depend upon its own forecasts, and even in this rule guided approach there is considerable scope for discretion and manipulation, and there are no penalties if rules are broken.

Carlos Martinez Mongay[1]

INTRODUCTION

Let me start by thanking Notre Europe for having invited me to contribute to this seminar, the interest of which becomes evident at a moment when the EU, as other parts of the world, is facing a significant slowdown in growth. Although our economies are showing greater resilience than in previous downturns, which could be attributed to the working of structural reforms implemented so far, boosting growth potential remains a priority. There seems to exist broad consensus that enhancing growth potential requires the implementation of structural policies within an adequate macro-economic policy framework.

Within this context, the proposal of Notre Europe of analysing the links between the Stability and Growth Pact and the Lisbon Strategy to see the extent to which both are compatible is particularly appealing. The request of the organisers of the seminar can be summarised in two questions: *Is the Pact preventing the Member States from applying the Lisbon strategy?* and *Could the Pact play an (a more) active role in the Lisbon Strategy?*

Before I try to answer both questions, let me give a personal, albeit I hope unbiased, summary of the Lisbon Strategy.

A PERSONAL SUMMARY OF THE LISBON STRATEGY

According to the Conclusions of the Presidency, the European Council met in Lisbon *"to agree a new strategic goal"* (becoming the most competitive and dynamic knowledge-based economy in the world …), which would require:

-.preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;

-.modernising the European social model, investing in people and combating social exclusion;

-.sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix.

What concrete measures have been envisaged by the Council to achieve this? The list is long and it is out of the scope of this contribution to enumerate all of them, but, after a careful reading of Presidency Conclusions, it appears that most concrete measures only imply a change in the regulatory framework with diverse, and probably not very large, budgetary impacts in the short run. Putting it in another way, such measures do not seem to require budgetary adjustments with significant impacts on public deficits. Moreover, the conclusions of the Presidency make it clear that *"achieving the new strategic goal will rely primarily on the private sector, as well as on public-private partnerships"*.

However, the part devoted to 'co-ordinating macro-economic policies: fiscal consolidation, quality and sustainability of public finances' makes clearer references to public budgets:

[1] European Commission. The views expressed in this paper are those of the author and should not necesarily be attributed to the European Commission.

-.alleviate the tax pressure on labour and especially on the relatively unskilled and low-paid, improve the employment and training incentive effects of tax and benefit systems;

-.redirect public expenditure towards increasing the relative importance of capital accumulation – both physical and human – and support research and development, innovation and information technologies

-.ensure the long-term sustainability of public finances …

I would suggest to focus on these three goals.

IS THE PACT COMPATIBLE WITH THE LISBON STRATEGY?

It is difficult to find arguments supporting the view that the Pact is not compatible with the Lisbon Strategy. I does not seem that keeping nominal deficits below 3%, ensuring a budgetary position close-to-balance or in surplus in the medium term, and maintaining debt levels under control (below 60% of GDP) are against any of the above-mentioned three goals.

On the contrary, the Pact provides room for manoeuvre to lower not only taxes on labour, but also the general tax burden. Indeed, there is nothing in these rules that prevents national authorities from redirecting public spending towards capital accumulation. The reduction in interest payments brought about by fiscal consolidation facilitates the restructuring of total public expenditures in favour of every kind of capital accumulation. Finally, the lowering of debt levels also helps in coping with the challenges of ageing, since it allows the creation of reserve funds and enlarge the budgetary room for manoeuvre in the long term.

Going to more concrete arguments, I do not know a single case of a country that, fulfilling the requirements of the SGP, claims that it cannot implement the Lisbon Strategy because of the Pact. However, it is interestingly to note that, sometimes, the representatives of some Member States that do not fully respect the Pact have claimed that they cannot implement the Lisbon Strategy precisely because of the same Pact they do not respect. Even more, it does not seem that the main reason for some countries to be in a budget position still far from reaching the close-to-balance or in surplus is the implementation of the Lisbon Strategy. In general, the problem of such countries is low potential growth coupled with an increase in current spending and/on a shortfall of revenues, sometimes associated with a pro-cyclical and non-self-financing tax cut carried out in good times.

It is also worth mentioning that in the countries, where excessive procedure (or an early warning) has been open, the origin of high deficits is never a significant increase in productive investment. Moreover, regardless of the level and evolution of debt, in none of such ‘excessive deficit’ countries, high and persistent deficits have contributed to the Lisbon goals of increasing growth potential and employment rates.

CAN THE PACT BE MORE LISBON-FRIENDLY?

Admittedly, the Pact may not be incompatible with the Lisbon and, yet, it could not be pro-active enough as to foster the implementation of structural reforms. More specifically, there is a case to ask whether some re-reading of the Pact, without introducing substantial changes in it, could make it more ‘Lisbon-friendly’.

This is one of the questions, although not the only one, to which the European Commission wanted to give an answer by adopting a communication on *Strengthening the co-ordination of budgetary policies*[2] on 27 November last year.

In its communication, the Commission considers that the existing rules for co-ordinating fiscal policy have helped to improve budget positions, to bring down inflation expectations and to provide incentives for improving the quality and sustainability of public finances. However, the Commission also acknowledges that there have been some problems with the implementation of the Pact. Such problems have become more apparent with the combination of slower than expected growth and its impact on the budget positions and the still significant deficits in some Member States. To deal with these difficulties, the Commission put forward five proposals:

First, budgetary objectives should take account of the economic cycle. While Member States are required not to breach the 3% reference value in nominal terms, the assessment of compliance with the close-to-balance requirement should be done in cyclically adjusted terms and other transitory effects on budgets should also be taken into account.

Second, countries still having deficits shall commit to a transitional path towards "close to balance". Countries with deficits would be required to achieve an annual improvement in the cyclical adjusted position of at least 0.5% of GDP each year until the 'close to balance or surplus' requirement of the SGP has been reached.

Third, countries must avoid a pro-cyclical loosening of budget policies in good times. The automatic stabilisers should operate symmetrically over the cycle, and this implies running nominal surpluses when economic conditions are favourable. A pro-cyclical loosening of the budget should be avoided.

Fourth, the sustainability of public finances will become a core policy objective. High debt countries should be required to achieve a satisfactory pace of debt reduction towards the 60% of GDP and failure to do so should result in the activation of the debt criterion of the excessive deficit procedure.

Finally, and particularly relevant for the issue we are discussing now, *a more flexible application of the 'close to balance or in surplus' requirement could be allowed to help ensure that public finances contribute to growth and employment in line with Lisbon strategy.* In particular, a small underlying deficit could be envisaged if it is needed to introduce large structural reforms that raise employment or growth potential in line with the Lisbon strategy. However, this should only be envisaged if the Member State concerned fulfils strict starting conditions (the MS concerned has already made substantial progress towards the 'close to balance or in surplus' requirement and debt is below the 60% of GDP reference value).

Moreover, to reflect differences in the sustainability of public finances across Member States, a small deviation from the 'close to balance or in surplus' requirement of a longer-term nature could be envisaged for MS where debt levels are well below the 60% of GDP reference value, and when public finances are on a sustainable footing.

These proposals have been almost literally reproduced in the Ecofin report of 7 March[3], which was fully endorsed by the European Council of Brussels on 20-21 March (see Presidency Conclusions, paragraph 16, 2nd indent). Therefore, the Commission considers that it can apply such proposals in the processes of multilateral surveillance.

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[2] See COM(2002) 688.

[3] Attached to this note.

CHANGING ACCOUNTING RULES?

To finish my contribution I would like to say a word on the golden rule. There is a case to ask whether other changes could have been introduced in order to enhance the capacity of the Pact to foster structural reforms. Leaving aside a number of proposals such as, for instance, focusing exclusively on long-run sustainability, which would imply the change of the rules of the Pact and, thus, the Pact itself, it has been argued that some kind of golden rule on investment could make the Pact more Lisbon friendly. The golden rule, by excluding some items from the deficit calculations, would not imply a change in the rules of the Pact and would help Member States to increase investment. However, the Commission did not considered this possibility by a number of reasons. Since other participants will likely carry out a detailed discussion on the issue, I will only mention some of them here.

The golden rule mat carry a dead-weight with it. It might be that Member States use such a possibility to simply maintain the level of public investment and increase other expenditures until equalise current expenditures and total revenues. One would never know whether the increase of investment would have taken place anyway, so that the golden rule would not affect the level investment in a significant way.

Deficit financing of investment, and the concomitant increase in debt, would be justified if the flow of future additional tax revenues compensates for the flow of future additional interest payments. The problem is that it is very difficult to assess such future revenues. Therefore, the application of the golden rule, even if it actually boosts investment, may jeopardise sustainability and growth in the long run. Investment-led additional potential growth would be offset by tax-driven distortions.

Implicitly or explicitly, the golden rule is applied to the net physical investment, which, given its level in terms of GDP, should not raise significant sustainability problems. However, the Lisbon Strategy puts a lot of emphasis on human and knowledge capital. This means including public spending on R&D, innovation, education, training and so on. Not only the identification of such expenditures is far from obvious, but also that the distinction between net an gross investment may be difficult, not to say impossible. As a result, the golden rule could apply to spending accounting 6 to 10 percentage points of GDP, so that we could have apparently balanced budgets actually concealing structural deficits persistently higher than 6% of GDP. Would this situation be sustainable even in the short run?

CONCLUSION

In sum, I do not think the golden rule is the instrument to foster structural reform. I rather think that sound public finances are a pre-condition for growth. Sound public finances allow automatic stabilisers to operate fully, which lower cyclical fluctuations and keep growth close to potential. Respecting the Pact provides enough budgetary room to finance a comprehensive and consistent programme of structural reforms without jeopardising the sustainability of public finances.

Macroeconomic and Employment Issues

James K. Galbraith

A few days of train travel across Austria and Italy have given me a chance to reflect further on our meeting in Paris on March 8. I venture the attached as a summary of the main arguments I heard there, and to which I made an effort to respond. Suffice to say, I found the general state of the discussion unsatisfying -- on both sides, including my own. This memorandum may help to crystallize the issues and so, I hope, advance your work.

To put the matter in a nutshell, it seems the general view on the side of the European participants that "structural reform" remains essential in the various economies of Europe. Some believe that structural reform is required *alon*e. Others hold that reform should work in tandem with a macroeconomic strategy of expanding demand and therefore employment. When the subject is unemployment, however, all emphasize reform before thinking of anything else.

What is missing is a single coherent view of what "structural reform" should consist. I was struck by the fact that my efforts to elicit a clear-cut statement on this topic met with multiple responses, none of them individually satisfying. But they were also mutually irreconcilable. And there was also no effort on the part of my interlocutors to reconcile them.

Thus (I will omit names so as not to compromise the closed character of the seminar) one participant responded to a question about the nature of a strategy against unemployment by stressing that European labor markets were becoming more "flexible." By this he meant that even professional workers in Europe are now often employed on short term contracts, such as four-week contracts for architects in Paris. Yet he felt that even this was not sufficient, for such workers nevertheless often find themselves qualified for generous unemployment insurance benefits following the termination of these contracts. This eligibility partly accounted, in his view, for continuing high rates of unemployment. Yet, when I asked whether it was his contention that *because* of the generosity of unemployment insurance such professionals were *turning down* jobs that had actually been offered, he appeared to allow that this was not, in fact, the normal case. Yet it is impossible, of course, otherwise to attribute unemployment to excessively generous unemployment insurance.

Two participants described "flexibility" as meaning primarily a tendency for average real wages to decline in the face of rising unemployment. One of these averred that the U.S. must be more flexible than Europe in this sense, as shown by the relatively slow growth of *average* U.S. wages, in the face of economic slowdown, as compared to Europe. I found this contention perplexing on its face, as I do not believe there is any current tendency for employment to recover in the U.S. as a result of suitably falling wages. But then l I realized that this participant was apparently treating the *average wage change* in the United States as though it reflected the *typical experience of the average worke*r.

Though I did not make the comment at the time, it is almost certain that the lower average nominal wage change in the U.S. in 2002 reflects a relatively large loss of high wage *employments*, due to the decapitation of the relatively-highly-paid technology sector over the past two years. Thus it is unlikely to have much to do with hourly wage rates. I doubt very much whether this participant took compositional changes into account in advancing his bit of evidence on U.S. wage changes.

A fourth participant – one who had earlier spoken forcefully in favor of a stronger demand policy *to accompany* structural reform – characterized European macroeconomic policy in terms of the politics of the wage bargain. This is a very familiar theme from the days of the Bundesbank and the pattern set by the metal workers contract in the German Federal Republic. But I was surprised to hear it mentioned in the context of the European Central Bank. How can the ECB be capable of using the instrument of single European interest rate to engage in implicit bargaining with the trade unions of a half dozen or more major European countries (let alone the smaller ones)? It seems obvious that once such a bargain is struck with any one such entity, the others regain their margin of maneuver. It was also not at all clear to me what structural reform in European bargaining – other than a German-style centralization across Europe as a whole, which no one seems to be advocating – could possibly bring this type of implicit incomes policy back into existence.

Another participant tried out the concept that European unemployment was largely "structural," and by this I believe he meant that it owed to deficient characteristics of the job seekers. Here I was able to respond that in America this view was now discredited by experience in the labor market, where it was until quite recently frequently deployed in particular to disparage the employability of our African American workforce. However we learned in the late 1990s that this workforce was perfectly employable once jobs were offered, and their unemployment rates went down alongside all the others. But I doubt that any of the European participants consider that their high unemployment work forces (for example, in Spain) suffer from the wide range of social debilities that used to be ascribed (falsely, as it turned out) to American blacks.

Finally, a participant from Portugal described the problem of that country (which actually does not have a very high unemployment rate by European standards) in terms of the high unit labor costs in the industries of that country, which are making manufacturing employments unsustainable. For this participant, the remedy is "increased productivity." But this also left me perplexed. It is usually not possible to raise productivity in manufacturing, without actually shifting the composition of manufacturing toward more productive sectors. This can only be achieved through a strategy of high business investment. But this precisely only happens in booms, not in slumps. The adjustment available in the slump is merely to trim jobs, and to try to maintain output by working the remaining labor-force more intensively. This is not, needless to say, an employment strategy. It is a *disemployment* strategy. Hence my question to that participant, was why one would wish to push such a process forward any more rapidly than absolutely required?

In short, in the course of an hour's discussion I was exposed to at least five different visions of the required "structural reforms" of Europe: reduced unemployment insurance, increased wage responsiveness to unemployment, some undefined new form of implicit bargaining, some undefined form of effort to improve the qualities of the workers themselves, and, finally, the curious argument that a shortfall of employment can be increased by increasing unemployment.

I have already commented on the inapplicability of all of these approaches to the American case. there is nothing in the American experience that supports any of them. We in the U.S. did not create jobs by cutting benefits or by cutting wages. In fact, as employment grew in the

US in the 1990s wages and benefits improved, and inequalities in the distribution of pay declined. Nor did we change the terms of any implicit wage bargain. Nor did we provide effective labor training to the supposedly unemployable (a recent authoritative study of training programs in the U.S. describes them as a "charade"). And we certainly did not do it by "rationalization." Any short review of the data will persuade any fair-minded observer of these facts.

The American return to full employment in the 1990s was, instead, a phenomenon of expanded business investment, fueled by speculative euphoria, and of the disappearance of consumer savings. None of the many warnings about the inability of the economy to function at full employment proved to be correct in the slightest. The difficulties – quite unanticipated by those who had previously seen all the false difficulties – lay instead in the financial unsustainability of the boom.

These difficulties are severe, as well as still quite poorly understood. The United States will take a very long time to recover from its present problems. But that full employment *can* be achieved through the implementation of a sufficiently powerful aggregate demand policy, without worrying at all about "labor market rigidities" is a clear lesson of American experience in the past decade.

For this reason, it seemed to me reasonable to try to finesse the confused and contradictory discussion of "reform", and to suggest instead that an *employment performance criterion* be placed in the Stability and Growth Pact. My specific suggestion was that the current recession trigger for relaxing the three percent deficit rule be replaced or supplemented by allowing any country to run a higher deficit so long as *average unemployment for Europe* exceeds some specified rate. This notion has the virtue of beginning to recognize the interdependence of European fiscal policies, and of taking into account the fact that an active fiscal policy in *any* country – including a country that does not itself have a high unemployment rate – can be useful in fighting unemployment throughout Europe, including in *other* countries. I also noted that the threshold rate could and probably should be well above the full employment rate of unemployment, because once average unemployment falls decisively private sector borrowing tends to strengthen, and public deficits fall anyway on that account. Thus there should be no difficulty meeting the SGP fiscal targets once *average* European unemployment is brought under control.

I have in my longer paper detailed some overlooked aspects of the "American model," with respect to health care, universities, pensions, and housing, and I will not repeat those comments here. But I hope these remarks may be circulated to the participants at the meeting, as well as to M. Delors (with, please, my very respectful greetings). I would be very glad to have any reactions.

ANNEX

List of participants

ARNAUD Jean-Louis	consultant, *Notre Europe*
BARREL Ray	Economist, NIESR
COLLIGNON Stefan	Professor, London School of Economics and Politics
DEHOVE Mario	Conseil d'analyse économique
FRANCO Daniele	Director, Public Finance Division, Banca d'Italia
GALBRAITH James	Professor, University of Texas
GOEBBELS Robert	Vice-president, Economic, Employment and Social Affairs, co-ordinator of ECON Committee, European Parliament
HESPEL Véronique	Commissioner, Commissariat Général du Plan
JOÃO RODRIGUES Maria	Board of Directors, *Notre Europe*
MARTINEZ Carlos	DG Economic and Monetary Affairs, European Commission
NESTOR Jean	Vice-president, *Notre Europe*
PADOA SCHIOPPA Tommaso	Executive Board, BCE
PALANKAI Tibor	Professor, University of Budapest
PISANI-FERRY Jean	University of Paris Dauphine
WAYSANT Claire	Direction of Treasury
ZSOLT DE SOUSA Hugo	Research fellow *Notre Europe*

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Available in English and French.

- *Paris (31 January-1 February):* ***Quelles perspectives pour les fonds structurels et la politique de cohésion ?***
Available in French and German.

- *Brussels (13 November 2001):* ***Crossborder and transnational cooperation – the new Europe is inventing itself in its margins***
Available in English, French and Italian.

- *Berlin (11-12 April 2001) :* ***Vers un nouveau contrat social en Europe. France-Allemagne : modèles sociaux et mutations économiques.***
Available in French and German.

- *Brussels (23 May 2001):* ***How to enhance economic and social cohesion after 2006?***
Available in English and French.

- *Brussels (28 November 2000):* ***Reuniting Europe***
Available in English, French and Italian.

- *Paris (4 September 2000):* ***European Union: the reform of the Council of Ministers***
Available in English and French.

- *Berlin (3-4 February 1999):* ***Le moteur franco-allemand à l'épreuve de l'Agenda 2000****.*
Available in French only.

- *Madrid (28 November 1998):* ***Fifteen countries in a boat: economic and social cohesion, the foundation for European integration***
Available in English, French, Spanish and German.

- *Athens (13-14 November 1998):* ***Europe in search of identity***
Available in English, French, German and Greek.

- *Brussels (10 June 1998):* ***National employment pacts****.*

Available in English, French, German and Italian.

- *Luxembourg (11 September 1997):* ***Industrial relations in the EU***

Available in English and French.

- *Brussels (29 May 1997):* ***La convergence économique et l'emploi en Europe. Quelles promesses pour l'UEM ?***

Available in French only.