Occasional Paper
No. 70

The Critical Mission of the European Stability and Growth Pact

Jacques de Larosiere

Published by
Group of Thirty©
Washington, DC
2004

Contents

Page

Introduction 5

EU Versus US Economic Performance 9

Understanding the Widening US/EU Growth Gap 10

Implications for the Future 13

The EU Social Model Versus the US Model 15

EU Versus US Social Preferences 17

Differing Views of EU Reform 18

Conclusion 23

Group of Thirty Members 27

Group of Thirty Publications 29

I. Introduction

In November 2003, the Stability and Growth Pact was shaken. France and Germany had deviated substantially from budget deficit guidelines set forth in the Pact. They were criticized, in particular by euro-skeptic commentators, some of whom had, earlier on, denounced the European budgetary rules as arbitrary and even harmful.

What should we think of those reactions? Are the budgetary slippages observed in France and Germany serious? Are the fiscal norms contained in the Maastricht Treaty and in the Stability and Growth Pact adequate? Are the European Monetary Union (EMU) fiscal constraints an exception to generally accepted policy norms?

This paper attempts to shed light on this debate in the following manner. It provides an assessment of the consequences of the European slippages in a wider perspective. It reflects on the validity of a permanent mechanism of pre-set budgetary rules. In this regard, it attempts to explain why such frameworks are increasingly being adopted and places EMU in the context of a worldwide trend. Finally it endeavors to evaluate the effectiveness of the present European fiscal rules: whether they are adequate or should be amended in the light of experience.

THE STABILITY AND GROWTH PACT

The Stability and Growth Pact is a political agreement that sets limits on the fiscal deficits and public debt of the Member States of the European Monetary Union (EMU). These guidelines are intended to ensure sound management of public finances within the EMU in order to prevent one Member State's irresponsible budgetary policies from spilling over and undermining the economic stability of the entire euro area. The rules and regulations set forth in the Pact are aimed at achieving sustained, long-run convergence of the economies within the euro area.

The Stability and Growth Pact's quantitative limits are drawn from those set forth by the Maastricht Treaty (1992), which prescribe that a member state's fiscal deficits must not exceed of 3 percent of GDP and its public debt should not exceed 60 percent of GDP. These limits are intended to prevent an excessive budgetary deficit within the euro area after the entry into force of the third stage of economic and monetary union (EMU) when no further adjustment of relative prices or interest rates would be possible among Member States.

The terms of the Stability and Growth Pact – that also prescribe that Member States must reach a balanced position over the cycle – were agreed by the European Commission in Dublin, Ireland in December, 1996. In June 1997, the European Council adopted the resolution drawn up by the Economic and Financial Committee (Ecofin) that put the Stability and Growth Pact into action.

II. The Franco-German fiscal slippages in a wider perspective:

Traditionally, except in the case of wars, governments have presented balanced budgets to their Parliaments. The deficits incurred during recessions were offset by the surpluses generated by years of expansion. Public debt was, in general (albeit not in all countries), contained within rather modest limits over the long term. The executive branch had the responsibility of monitoring the stability of public finances and the control of public debt.

However, things have profoundly changed.

THE TENDENCY FOR GROWING PUBLIC EXPENDITURE

Since World War II, the structural evolution in most western-style democracies has tended to increase public spending. The greater role of the State in the realm of social welfare has been an essential factor in this process. More generally, public transfers and subsidies have grown fast, while carrying out public missions such as education has entailed heavier financing needs. In some countries, like France, the growth of public transfers and the increasing belief in the state's responsibility to cover social and economic risks have favored the expansion of public expenditures. Thus, total public spending has risen from 39 percent of French GDP in 1970 to more than 54 percent today (see Table I). This places France in the highest position in regards to public spending/GPD within the Euro zone[1]. By contrast, the "Anglo-Saxon" countries have a public spending to GDP ratio slightly higher than 30 percent. Of course, the financing systems of pensions and health care account for a significant part of this difference. But even after correcting for these structural differences, France stands out as a country with an extremely high level of public expenditure.

The high ratio of public spending to GDP poses two potential dangers. The first danger stems from heavy taxation. Not surprisingly, Tables I and II show that public taxation (including social security contributions) is strongly correlated to public expenditures. In France, public taxation ("prélèvements obligatoires") accounts for more than 50 percent[2] of

1 The average of the Eurozone is 48.9 percent with Germany at 49.4 percent.2 Of which 16 percent for social security contributions, see note 3 of table II.

2 Of which 16 percent for social security contributions, see note 3 of table II.

GDP — a ten percentage point increase since 1975 — thus placing this country in the top league of the OECD. It is well known that, above a certain threshold, excessive taxes discourage private initiative and lead to outsourcing of activities to countries with a lower tax burden. Many are the examples of investors, whether French or foreign, who put off projects in France because of excessive taxation. In a world of free trade and capital movements, it is easy to imagine the damage that such a "fiscal exception" can entail in terms of growth, competitiveness, and employment. All the painful consequences of these disincentives are not immediately apparent, but they will materialize eventually.

The second danger concerns the magnitude of fiscal deficits and related public indebtedness. Even if taxation is increased to keep pace with public expenditure, the long-run trend for the latter is to exceed the growth of budgetary revenues. It is, indeed, politically easier to increase public expenditure than to overtax citizens. Over the last twenty years, the result of this phenomenon has been a tendency towards higher fiscal deficits (see Tables III and IV).

While a country like France used to run rather limited fiscal deficits — less than 1 percent of GDP on a yearly average over the period 1974-1981, a strong expansion of those deficits has been observed in subsequent years. Thus, France's average annual fiscal position since 1980 has been a deficit of 3.5 percent of GDP (as against 2.5 percent for Germany).

This trend has inevitably led to a dramatic increase in the public debt of industrialized countries (see table V). This increase is all the more significant since inflation no longer helps to reduce the burden of outstanding debt, unlike the experience of the past. Italy, Belgium and Ireland have, in particular, seen a true explosion of their public debt during the 1970s and 1980s. Indeed, their ratio of public debt to GDP exceeded 100 percent in the early 1990s.

But the "good pupils" have also shown this tendency. In France, where public debt to GDP was below 20 percent in 1980 and whose public indebtedness has traditionally been moderate, the ratio is 62 percent today — a trebling in real terms over twenty years. In two decades, how could France join the group of countries who have exceeded the 60 percent alarm limit? The answer is simple: by letting control of public expenditures and deficits slip year after year in an environment of less buoyant economic growth.

The negative consequences of this situation are obvious. On the one hand, public deficits have absorbed a growing share of private savings, which has consequently reduced financing available for private productive investment (crowding out). Table III shows that on average yearly from 1980 to 2003, the general government's deficits have claimed 40 percent of French net private savings. On the other hand, as table VII shows, the cost of servicing the public debt has grown significantly.

Does public opinion realize that, in spite of presently low interest rates, the annual payment of interest on the French public debt amounts to nearly 3 percent of GDP – and that this represents three quarters of the 2003 fiscal deficit? Is it normal, from the standpoint of "household economics", that the state should borrow every year to finance the interest on its debt? If the snowballing effect of such a situation is to be avoided, the budget would have to generate a primary surplus of 3 percent of GDP for a number of years. The prospects of that are very remote!

Budgetary authorities have lost significant flexibility because they have to allocate such large resources to servicing public debt. The general reduction of interest rates over recent years has, of course, tended to moderate this problem. But it must be remembered that markets eventually impose a sanction on systematic deficit spending policies through higher long term interest rates. Evidence of this phenomenon has recently been observed. Exhibit VIII shows the recent performance of Spanish government bonds versus French and German bonds. Spanish spreads have traditionally been higher than those of Germany and France because of the "southern European" risk premium. But because of a more responsible fiscal policy in Madrid, Spanish spreads fell slightly below those of its two large neighbors for the first time in the summer of 2003.

It is well known that beyond a certain level, public debt becomes "unsustainable". A country like Brazil, with gross public debt equal to 78 percent of GDP and still high risk premium, has to generate a primary surplus of more than 4 percent of GDP each year in order to stabilize its public debt.

Lower interest rates have no doubt encouraged deficit spending over the last years[3]. But in an environment of slow economic growth, the

3 Lower interest rates, which reduce the burden of debt service, should normally have led to a reduction of public expenditure and deficits. In fact, the fall in interest rates has been, in part, offset, in France, for example, by an increase of other public expenditures items. Other countries (like Spain, the United Kingdom, the Netherlands….) have better taken advantage of the lower interest rates (see Table I).

real level of public indebtedness continues to increase. Accumulating year after year, fiscal deficits of 3 to 4 percent of GDP when growth hovers around 1 to 2 percent create a dangerous snowballing process. Furthermore, there is no guarantee that long term interest rates will remain permanently at the present low levels.

Exhibit VIIIb is illustrates vividly the explosion of world public indebtedness over the last twenty years. The fall in interest rates observed since the early nineties has, globally, been accompanied by an expansion of public debt which now reaches more than 50 percent of world GDP (against 25 percent in 1980).

This phenomenon is all the more serious since inflation is no longer a solution. For too long in the past, governments have repaid their debts in depreciated currencies. In fact, real interest rates on sovereign bonds proved to be negative ex-post in those times. But such a "monetary illusion" has disappeared. Now that capital movements are free, investors can place their savings in financial instruments that offer positive remuneration in real terms. If inflationary expectations were to reappear, long term interest rates would rise and over-extended states would have to pay in "real money" for the consequences of their past laxity.

In considering the debt problem, one should bear in mind the Domar theorem which states: "If the nominal interest rate is higher than the nominal rate of growth of GDP (which is, for instance, the case of France nowadays), the ratio debt to GDP will grow infinitely, whatever the level of the deficit." In other words, ill considered borrowing — destined to transfer the cost of present expenditures to future generations of taxpayers — leads to deadlock in a world characterized by moderate growth with positive real interest rates due to low inflation.

It is essential to remedy the present situation by reducing significantly budgetary deficits and excessive public debt. This action is all the more urgent since the horizon is clouded by a massive financial risk yet to be properly calculated: the demographic shift in most industrialized countries, especially in Europe, toward aging populations. With fewer working taxpayers and contributors and greater entitlements, future demands on public finances will only compound the consequences of fiscal slippages of the past twenty years.

III. Frameworks for budgetary constraint in OECD industrialized countries

As the time horizon of politicians is, often, limited to the next election, it is difficult for them to conceive and enforce a medium-term fiscal strategy. Cutting back public expenditure is never popular because, by definition, it reduces the benefits and entitlements of a number of citizens even if it leads to global betterment for the community at large. Reducing public expenditures year after year is even more politically difficult.

This reality has led a growing number of OECD States to resort to "rules-based" fiscal policies. Such rules are meant to better contain deficits and public expenditure over the medium term and to stabilize or even reduce public indebtedness. The common thread of the many pieces of legislation enacted in this area is that fiscal discipline, once it has been established by Parliament in a medium-term framework, is easier to enforce steadily over time. Of course, new majorities can always undo what has been earlier established but experience shows that it is easier politically to reach "bi-partisan" agreement on fiscal codes of conduct than to obtain agreement on new austerity measures year after year.

The IMF has recently published a study[4] on the subject. The experience of a selection of countries is briefly summarized below.

AUSTRALIA-NEW ZEALAND

In Australia, under the "Budget Honesty Act" (1996), the government must lay out its fiscal objectives and its medium term strategy in each annual budget. The budget must be consistent with the principle of fiscal balance over the course of the economic cycle.

In New Zealand, the "Fiscal Responsibility Control Act" (1994) goes further. In particular, it establishes the principle that operating surpluses must be achieved each year until prudent levels of public debt are attained. In a longer perspective, the objective is to achieve an average surplus over the cycle sufficient to ensure that gross public debt remains below 30 percent of GDP and that old age pension commitments will be met.

---

4 See IMF - Occasional Paper n° 225 by Teresa Daban, Enrica Detragiache, Gabriel di Bella, Gian Maria Milesi-Ferretti and Steven Symansky, Washington 2003.

In both cases, the results of this medium term policy have been spectacular. In Australia, the fiscal position has shifted from a deficit of 4 percent in 1992-93 to a surplus of 2 percent in 1999-2000. Public expenditure has been contained and the tax burden has remained constant. In New Zealand, the public debt (74 percent of GDP in 1987) has been halved and public expenditure has been significantly reduced in real terms.

In both countries, governments must explain, each year, how their budget proposals are consistent with the medium term strategy.

CANADA

In the 1980s, Canadian public debt hovered around 35–40 percent of GDP. But declining growth in the early 1980s resulted in significant budget deficits which culminated in a 1993 deficit equal to 6 percent of GDP. As a result, public debt increased markedly to 70 percent of GDP in 1992.

These slippages led the Canadian Government to ask Parliament to adopt the “Fiscal Spending Control Act” in 1992 which established a nominal expenditure limit for 1992-1996. Furthermore, the government decided in 1995 to set up a “contingency reserve” to finance forecasting errors and unpredictable events. If not needed, the contingency reserve can be used to pay down debt. In 1998, the government committed itself to repay public debt which implied surplus budgets during the following two years. A contingency reserve of CAN$ 3 billion a year was to be used to pay down the debt.

This policy was successful: the cap on public expenditures was observed, the budgetary position shifted from a deficit of 5 percent of GDP to a surplus of more than 1 percent in 1999. The outstanding public debt was brought down from 70 percent of GDP in 1994 to 52 percent in 2000. Most of these improvements came from structural measures.

SWEDEN

Following the recession of the early nineties, Swedish public finances had severely deteriorated. The deficit accounted for 10.5 percent of GDP in 1994 and public expenditures had reached the record level of 65 percent of GDP. Furthermore, public debt had doubled between 1990 and 1994, reaching almost 74 percent of GDP.

The Swedish government issued a three-year-consolidation program to be implemented in 1995 to1998 with adjustment measures equivalent to 7.5 percent of GDP. Besides, the Swedish Parliament adopted a government budgetary plan on a four-year basis. Expenditure ceilings for the public sector were introduced.

Even though they have been in place for only a few years, these measures have produced remarkable results: the ratio of public expenditure to GDP, although still very high, has fallen from 65 percent to less than 53 percent. Budgets have shown steady surpluses since 1998. The gross public debt to GDP ratio is forecast to decrease from 74 percent in 1996 to below 51 percent in 2003. This gives an idea of the magnitude of the adjustment implemented over the last seven years.

THE NETHERLANDS

The Netherlands has a long tradition of carefully planned fiscal policy. In the 1960s, the Dutch government had adopted a "structural fiscal policy" based on the principle that the budget deficit should be constant as a proportion of "trend GDP" (i.e. the potential growth that the economy can afford in the medium run without inflationary risks).[5] The system performed well until the early 1970s when the authorities substantially overestimated trend GDP which led to substantial increases in fiscal deficits. In 1982 the general government deficit reached

7 percent of GDP. The government reacted and abandoned this trend-GDP rule and adopted a multiyear deficit reduction target which had serious pro-cyclical drawbacks.

In 1994, the government returned to a structural policy (Trend Based Fiscal Policy). According to this policy, which in essence has been maintained to this day, budgets establish specific ceilings (in constant prices) on public expenditures, including social security, for a four-year period. The secret of the success of this policy lies in the very cautious growth assumptions that underline the government budgetary proposals. When public revenues exceed forecasts in high growth periods, excess revenue reduces the deficit. If revenues are below forecasts as in an economic slowdown, the deficit increases but may not exceed 2.5 percent of GDP.

5 In detail, the structural budget deficit was derived from the structural savings surplus of the private sector minus the desired structural surplus on the current account to compensate for capital transfers and loans to developing countries.

These policies, very detailed and medium term oriented, have considerably improved public finances in the Netherlands. The deficit of 4.2 percent of GDP in 1995 has shifted to a surplus of 1.5 percent in 2000, while the outstanding public debt was reduced from 74 percent to 56 percent of GDP over the same period. The use of prudent assumptions and the improvement of the economic situation have obviously enhanced the process of fiscal consolidation.

UNITED KINGDOM

Since the 1970s, the United Kingdom's fiscal policy has been characterized by substantial fiscal deficits: 3.3 percent of GDP on average from 1979 to 1996, and more than 4 percent in 1997. The authorities reacted by instituting discretionary restrictions which compounded budgetary pro-cyclicality and harmed public investment. Therefore, in 1997 the government proposed and Parliament approved the "Code for Fiscal Stability" which encompasses the principles and rules which now govern public finances in the United Kingdom.

The essential objective of this policy is to achieve a balance over the cycle between current revenues and current expenditures. As a result, the government is authorized to borrow only to invest ("golden rule"). Furthermore, the second rule (the "Sustainable Investment Rule") establishes that the public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level (i.e. on the order of 40 percent).

This policy has produced positive results: the ratio of public debt has shifted from 43.7 percent of GDP in 1996 to 31.5 percent of GDP in 2001. The deficit of 4.4 percent of GDP in 1996 has given way to a surplus of 0.9 percent in 2001. During this period, the structural balance has improved. British public finances have nonetheless deteriorated in 2002-2003 as the economy slowed and because of increases in some public expenditures (e.g., for education, health and transport).[6]

---

6 The "Golden Rule" could be seriously breached according the National Institute of Economic and Social Research (Financial Times, Jan. 30, 2004).

UNITED STATES

The rather erratic fiscal performance of the United States is well known, as are the "twin deficits" that continue to characterize the budgetary situation of that country. The fiscal deficit reached 6 percent of GDP in 1983, and was around 5 percent in 2003. The ratio of public debt to GDP has increased from 25 percent in the early 1970s to 45 percent thirty years later and continues to deteriorate.

This poor performance has led to rules-based pieces of legislation aimed at reducing public deficits and to control the increase in public debt. The most famous of these laws was the "Gramm-Rudman-Hollings Act" of 1985. The US experience, in contrast to the ones described above, was not successful. Mandatory spending reductions imposed by the 1985 Act were ruled unconstitutional with regard to the separation of powers. In 1990, because of the war with Iraq, the President and Congress agreed to postpone balancing the budget as prescribed in Gramm-Rudman-Hollings II. The 1990 Budget Enforcement Act placed nominal caps on discretionary spending over the period 1990–95. US fiscal accounts did improve from 1997 to 2001 but this was largely a reflection of an upswing in the economy. Spending limits established under the Budget Enforcement Act were systematically circumvented.

Except for the United States, the examples discussed above show that a medium-term fiscal policy is not only possible, but most often effective as long as Parliaments and governments display a clear political will. One can add that the fiscal improvements resulting from these policies have not, in the medium term, harmed the economic performance of the countries concerned. On the contrary, structural adjustment measures have had positive effects on potential growth.

IV. The EMU's fiscal rules

Given the preceding discussion, the EMU fiscal framework is not an exception to a general rule. Many countries have adopted similar, or stricter, regimes that most often have been successful.

There is an additional justification for a fiscal framework in a monetary zone. As monetary policy is, by definition, common to all members of the Union, fiscal policies must be consistent. If some members were allowed to run high deficits, this would entail consequences for the whole Union. This would be all the more true if the slippages were by countries of significant economic weight. Systematic deficit spending eventually leads to higher prices and interest rates, and therefore distorts economic and financial conditions in the Union. So in addition to the national case for prudent fiscal policies, there is a need for members of a monetary Union to behave consistently and in a mutually responsible way. This requires solidarity and respect for common rules by all.

Given the November 2003 crisis, one has to examine the question: are the fiscal European rules adequate or should they be changed?

THE THRUST OF EUROPEAN FISCAL RULES

European norms are the combination of the Maastricht Treaty rules (signed on February 7, 1992) and those laid out later in the Stability and Growth Pact (June-July 1997). It is important to understand how these rules complement each other and their respective justifications.

The Maastricht Treaty rules (fiscal deficits must not exceed a limit of 3 percent of GDP, and public debt should not exceed 60 percent of GDP) are best understood in relation to the history of EMU. The main objective in the early 1990s was to determine the accession criteria for the future members of the Monetary Union. At that time, some countries like Spain, Italy and Greece were running fiscal deficits well above 3 percent of GDP. The norm was intended to encourage them into a process of convergence. As for the countries whose public debt exceeded 60 percent of GDP (Italy and Belgium among others), the Treaty called on them to bring their deficits below 3 percent so that they could gradually, but visibly, approach the 60 percent norm.

Given the growth and price environment prevailing in Europe, these limits were internally consistent. They had the merit of laying out a simple framework for convergence which has subsequently proven to be

a great success. Let us not forget that the Southern European countries have all eventually met the Maastricht criteria and joined EMU.

The creation of the euro in 1999 has led to a common monetary union in Europe. This has eliminated the nagging problem of exchange rate fluctuations among members of the Union. In turn, this has led to an intensification of trade relations within the zone and to the near elimination of interest rate differentials which used to penalize the countries perceived by the markets as too far away from economic convergence.

The Stability and Growth Pact should be understood somewhat differently. It sets out procedures for "excessive deficits." Its objective is not to establish accession criteria but to set medium-term rules to ensure fiscal discipline after the accession and the creation of the euro within Member States. It is in this context that the Pact prescribes that Member States must reach a balanced fiscal position over the cycle.

THE STABILITY AND GROWTH PACT RULES AND THEIR IMPLEMENTATION

The rules

The argument in favor of a medium term balanced fiscal position is well known: during recessions, fiscal balances tend to deteriorate (revenues decline while social spending increases). The Pact allows these "automatic stabilizers" to operate within the limit of -3 percent of GDP. During expansionary years, the upswing in the cycle improves budgetary conditions for symmetrical reasons: the stabilizers lead to fiscal surpluses. Over the whole cycle, the budget position is close to balance.

In order to enforce this fundamental rule, the Pact has planned a very precise set of procedures:

- EMU Member States must present a medium term stability program (the targets are updated every year). These programs are the basis for the multilateral surveillance exercised by the Council of Ministers.

- In case of slippage, the Council can address a recommendation to the interested Member State. This recommendation can be made public.

- If the fiscal deficit of a Member State exceeds the limit of 3 percent of GDP, the "excessive fiscal deficit" procedure is triggered. In such

a case, the Council sends to the interested Member State a recommendation to take the appropriate measures in order to put an end to the "excessive" deficit. If the member does not conform to the recommendation or does not take the remedial measures, the Council may decide to impose sanctions: require a non-interest bearing deposit and, if the "excessive" deficit has not been corrected within two years, convert the deposit into a fine.

THEIR IMPLEMENTATION

Ireland was criticized for reducing taxes and increasing public expenditure at a time of overheating, although the country was running a fiscal surplus. In 2001 the Council made a recommendation that Ireland improve its policy mix.

Portugal's fiscal deficit was estimated at 2.2 percent in 2001 which exceeded the stability program of this country. This did not trigger a formal recommendation by the Council, although there was a proposal by the Commission. Portugal's fiscal position further deteriorated: the 2001 deficit was revised to 4.1 percent of GDP. The Commission then underlined that the slippage was not caused by a severe recession and triggered the "excessive deficit" procedure. The Council agreed to this proposal in November 2002. Portugal was invited to bring its deficit under the limit of 3 percent of GDP in 2003.

Germany's fiscal deficit reached 2.7 percent of GDP in 2001, significantly exceeding the revised objective of its stability program. In February 2002, the Commission proposed engaging the early warning procedure but because the German government committed itself to respect the 3 percent limit in 2002, the Council did not go along with he Commission's proposal. In fact, the German fiscal deficit in 2002 reached 3.6 percent of GDP under the influence of a slowing economy. Therefore in January 2003 the Council issued a recommendation under the "excessive deficit" procedure that invited Germany to adopt measures necessary to bring the deficit under the 3 percent limit. Because of a worsening economic environment, the deficit further deteriorated in 2003 to an estimated—4.2 percent of GDP. This has led the Commission to propose strict recommendations that could eventually entail sanctions. It is well known that the Council decided in November 2003 to "suspend" the procedure concerning Germany as well as France.

France, for its part, had been the object of an early warning procedure in January 2003 because it had exceeded the targets laid out in its 2002 stability plan: a 2.7 percent deficit instead of — 1.4 percent. As in Germany, the French economic situation deteriorated further and the fiscal deficit for 2002 was revised to — 3.1 percent and is estimated at — 4.2 percent for 2003 (Commission's estimates, January 2004).

In the meantime, a decision taken by the "Eurogroup" (the Group of Ministers of Finance of the Eurozone) at the end of 2002 committed the EMU members states (including Germany and France) to reduce their structural deficits by at least 0.5 percent of GDP per year from 2003 onwards (2004 was the starting point for France).

With an economic growth forecast of 1.7 percent for 2004, the French government has accepted a reduction in the structural deficit to 0.7 percent of GDP (the Commission wanted 1 percent) which would result in a nominal deficit of 3.5 percent of GDP in 2004. For 2005, with a growth forecast of 2.5 percent, the reduction by 0.6 percent of the structural deficit in terms of GDP would lead to a nominal deficit slightly below the 3 percent limit (2.9 percent forecast).

Germany, on the other hand, has accepted reduction of its structural deficit by 0.6 percent of GDP and, like France, has committed to rein in its fiscal deficit under 3 percent in 2005. Progress made by these two countries will be examined every six months.

This experience shows that neither the Council nor the Commission have wished to risk endangering the present nascent recovery by tightening fiscal policy too severely. The differences between the Commission and the two Member States regarding the reductions of structural deficits for 2004-2005 are, in fact, rather modest. The real problem is therefore not so much a matter of legal authority. It lies rather in the insufficient assessment of fiscal positions for these countries during the previous years of growth, and in the behavior that has characterized the relationship between governments and Brussels on budgetary matters.

V. Assessment of the Stability and Growth Pact's Fiscal Rules

The present context is one in which the Commission has filed a lawsuit in the Court of Justice of Luxembourg questioning the legality of the Council's decision to "suspend" the procedures recommended by the Commission against France and Germany. In this environment, it seems appropriate to evaluate the fiscal rules of the Pact and their implementation in light of experience.

THE FUNDAMENTAL OBJECTIVE OF THE PACT APPEARS TO BE VALIDATED

Requiring European States "to ensure a fiscal balance over the cycle" seems to be a prudent rule. Nonetheless, some could object that such a rule would tend to lead in the long run to elimination of public indebtedness because of the positive trend for GDP growth. This would have an unnecessarily restrictive effect on the economy and would hamper an optimal allocation of savings. This argument has some validity in theory but an effective counter-argument is that the fiscal horizon for European countries is so clouded by the consequences of demographic changes on long-term public commitments that it is only prudent to build some margin for inevitable future increases in indebtedness. In this respect, requiring over-the-cycle fiscal balance, especially for countries whose public debt exceeds 40 to 50 percent of GDP, is a good house-keeping measure for the future.[7] Many countries outside the EMU abide by such rules.

SUGGESTIONS CONCERNING THE PROCESSES AND THEIR IMPLEMENTATION

1. Automatic stabilizers should operate both ways

It is normal that fiscal deficits deteriorate, within certain limits, when the economy slows down. In this respect, the 3 percent reference is an acceptable order of magnitude, even if it implies an inevitable element of arbitrariness. What is not normal is that in periods of growth the additional revenues are not used to reduce deficits, and significantly more than has been the case in the past for a number of member states.

---

7 On the fiscal impact of aging populations, see Peter S. Heller: "Who will pay?" (IMF 2003)

France and Germany are typical "counter-examples" as the following table shows:

		1998	1999	2000	2001	2002	2003
FRANCE	GDP growth	3.5%	3%	3.4%	2%	1.2%	0.2%
	Public deficit/GDP	-2.6%	-1.8%	-1.4%	-1.5%	-3.1%	-4.1%
	Structural deficit/GDP	-1.6%	-1.2%	-1.6%	-1.7%	-3.0%	-2.9%
GERMANY	GDP growth	2%	1.8%	3%	0.8%	0.2%	-0.1%
	Public deficit/GDP	-2.2%	-1.5%	-1.4%	-2.8%	-3.6%	-4.0%
	Structural deficit/GDP	-1.4%	-0.9%	-1.4%	-2.6%	-2.6%	-2.4%

Over the whole cycle (1998-2003), far form reaching a «position close to balance» as required by the Pact, these two countries have accumulated fiscal deficits equal to 14.6 percent (France) and 15.7 percent (Germany) of GDP. The basic concept of a «discipline-oriented» fiscal framework — that economic expansion should lead to significant fiscal improvement — has not been applied by the largest Member States of EMU. The heated debate that took place in France a few years ago on the use of revenue surpluses (the «cagnotte» or «kitty») shows that authorities and the general public are far from informal consensus on this crucial subject[8].

The more virtuous example of Spain helps to demonstrate how the cycle can be used in fiscal terms, without endangering economic growth.

		1998	1999	2000	2001	2002	2003	2004 *(forecast)*
SPAIN	GDP growth	4.3%	4%	4.1%	2.7%	2.6%	2.4%	2.8%
	Fiscal balances	-0.6%	-1.2	-0.8%	-0.1%	-0.1%	.3%	0.4%
	Structural positions	-2.3%	-1.0%	-1.3%	-0.4%	0.2%	1%	1.3%

8 If public Administration were to compute -as corporations do- the total amount of their contractual liabilities and those that will be contracted in the future in the field of pensions, one would observe figures of total liabilities (net of contributions) much higher than those reflected in usual indebtedness statistics. This is not too serious a problem in a situation of constant demography. But with aging populations, wisdom requires to compute and provision these future spending obligations (see Peter Heller).

The experience described above shows that the 3 percent Maastricht criteria has been misinterpreted. Rather than being a target deficit below which governments should feel comfortable, the limit should only be operative "in bad weather." During periods of growth, EMU Member States should reduce deficits or generate surpluses, more than they have achieved in the past. Letting the automatic stabilizers operate both ways should become an obligation (see, for example, the case of the Netherlands described above). In this respect, the deficits incurred by France from 1998-2000, in years of strong growth, compound the present fiscal situation. They have made it all the more difficult to rein in imbalances in years of declining activity because a margin for maneuver has not been built during good years. In other words, it is during the periods of expansion that fiscal surveillance should show its muscle, more than in times of recession.

2. Structural deficits should be reduced

At the end of 2002, the Commission assigned greater importance to the cycle in its proposals to adapt the Pact. It stressed the need to let the stabilizers operate symmetrically. In this respect, it proposed an annual target for reducing structural deficits, which is the only proper way to implement the medium-term stability objective. Table IX shows that, except for Japan and the United States, France ran the highest structural deficit among OECD countries (- 2.9 percent of GDP in 2003). It is therefore indispensable to pursue in a policy geared to the reduction of those deficits. This is of the essence, not only for the sake of the Pact, but for the future of the French public finances and the ability of the country to face the challenges for growth and employment in an open and non-inflationary environment.

3. It is necessary to adapt fiscal policies to the nature and the sources of the problems experienced by different Member States

This case-by-case adaptation is, in principle, taken into account in the national stability programs. But this endeavor should be more systematically followed up by the Union. The recommended fiscal adjustments should be more "tailor-made" and influenced by the situation of individual member-countries like the level of public debt or the burden of public spending (current expenditure versus investment).

Thus a country like France, characterized by a very high level of public spending and taxation, should decisively engage in reducing public

expenditures and taxes and improve the efficiency of public administration. Countries like Italy, Belgium, and Greece, with levels of public debt (respectively in 2003: 106.4 percent, 103.5 percent and 100.6 percent of GDP) well beyond the European average, should also be required to carry out a more significant reduction of their structural deficits.

4. Shape fiscal strategy in a longer term demographic perspective

The aging of European populations will increase the burden of pensions and healthcare, and these impacts and their timing will vary from country to country. Ecofin projects the "heaviest" burden will fall in 2030 for France and Italy, 2040 for Germany and 2050 for Spain. The Ecofin estimates, given in Table X, project public expenditure "overruns" vis a vis 2000, stemming from pensions alone, averaging 4.5 percent of GDP for that group of countries, including 4 percent for France and 5 percent for Germany.

Structural reforms such as raising the retirement age, reducing entitlements, introducing pension schemes, etc. can ease the burden. But if they cannot resolve the whole problem, it is prudent to consider what contribution the public finances of those countries will have to make. Certainly it is imperative to "mend" fiscal policies well ahead of the most critical years so that when crunch times come, debt sustainability is not put in jeopardy.

Therefore, taking the long-run demographic evolution into account, as countries like Australia, New Zealand and the United Kingdom do systematically, is an indispensable exercise. This could help educate public opinion about the need for medium-term fiscal discipline.

5. "De-politicize" European budgetary discussions

As discussed above, on several occasions the Commission has recommended that the Council of Ministers trigger early warning procedures, but without success. Subsequent events have shown that the Commission was right and the more "political" stance of the Council had allowed fiscal situations to deteriorate. Had the Commission's recommendation been followed, corrective actions might have been taken earlier and the Pact would have been better observed.

It also appears that Member States have often based their budgetary projections on overly optimistic growth assumptions. Since this bias affects the application of European procedures, it is an issue that requires much more attention. A "rule of prudence" should be established and

followed meticulously, perhaps by a group of independent experts.

Lastly, Member States should not consider the Stability and Growth Pact as a sort of external imposition. They have all approved the Pact and should, therefore, feel responsible for its implementation. A number of democratic states abide by similar rules — often stricter rules — on a voluntary basis. It is time that governments and parliaments really make those rules "theirs", adapting them if necessary to their own situations as long as this "personalization" does not weaken the Pact (see, for example, the case of the Netherlands where rules are stricter than those of the Pact).

VI. Conclusion

To summarize, the disciplines embodied in the Maastricht Treaty and the Stability and Growth Pact are in no way unique to Europe. They are in line with a worldwide trend toward fiscal rules hat is justified by the need to correct decades of fiscal slippage. The experience of countries that have been particularly successful in this effort should be usefully exploited.

The five suggestions discussed in the previous chapter might serve as a basis for "adaptation" of present procedures. This might help to break the present deadlock and make the process more efficient and better understood. They are in no way intended to call the European system into question. Far from seeking to change well founded rules because they have become uncomfortable, it is necessary to implement those rules through the cycle with impartiality, vigilance, steadiness and intelligence, taking into account the nature and seriousness of the problems of each country. These issues should not become the object of legal or judiciary confrontations, but should be dealt with constructively in a spirit of impartiality and political consensus. This is essential for the stability and consistency of EMU as well as for the future growth of the Member States themselves.

This is not a debate between "monetarists" and "Keynesians." The issue is to repair a crucial instrument of economic policy, the fiscal instrument, which has been spoiled by more than twenty years of laxity. Indeed this tool has been abused and overused, leading to worrisome indebtedness, heavy spending and high tax rates in many countries. As one of the best French writers on public finances, Gaston de Levis, wrote in 1819:"The ancient proverb says that the revenge of the gods slowly follows the crime but, in the end, catches up with it. As far as indebtedness is concerned, vengeance does not hobble along; it gallops to clamp down on the culprit."

References

BNP Paribas, Ecoweek, December 2003 n03/12.

European Union. http://europa.eu.int

Heller, Peter S. *Who Will Pay?: Coping with Aging Societies, Climate Change, and Other Long-Term Fiscal Challenges.* International Monetary Fund, Washington, D.C 2003.

International Monetary Fund (IMF 2003) Daban, Teresa, Enrica Detragiache, Gabriel di Bella, Gian Maria Milesi-Ferretti, and Steven Symansky. 2003 *Rules-Based Fiscal Policy in France, Germany, Italy and Spain*. IMF – Occasional Paper n225, Washington, D.C

Table I. PUBLIC EXPENDITURE AS A PERCENTAGE OF GDP

	Canada	Denmark	Germany	Spain	France	Euro zone	Finland
1970			39.1	23.6	39.3		31.9
1971		42.9	40.6	25.3	38.7		33.5
1972		42.6	41.6	24.7	38.6		34.1
1973		40.2	42.1	24.3	38.5		32.8
1974		44.4	45.6	24.7	39.7		33.5
1975		46.1	49.9	26.3	43.7		38.9
1976		45.8	49.1	27.6	44.4		40.1
1977		46.5	48.7	29.1	44.0	43.6	41.8
1978		48.0	47.5	31.1	44.7	44.5	41.6
1979		50.5	47.2	32.1	45.3	44.5	40.6
1980		53.6	47.9	34.2	46.6	45.2	40.6
1981	42.5	57.3	48.8	36.9	49.4	47.5	41.6
1982	47.3	58.8	48.9	39.0	51.1	48.7	43.4
1983	47.9	59.0	47.7	40.0	51.8	49.4	45.0
1984	47.5	58.0	46.9	40.4	52.7	49.2	45.0
1985	48.0	56.8	46.3	43.1	53.3	49.5	46.9
1986	47.5	53.3	45.4	42.6	52.7	49.2	47.9
1987	46.1	55.0	45.8	41.0	51.9	48.9	48.5
1988	45.4	57.2	45.3	40.9	51.4	48.5	47.0
1989	45.8	57.3	44.0	42.2	50.4	47.9	45.2
1990	48.8	57.0	44.5	43.4	50.7	48.7	48.6
1991	52.3	57.8	47.1	44.9	51.5	50.1	57.7
1992	53.3	59.0	48.1	45.9	53.0	51.3	63.0
1993	52.2	61.7	49.3	49.4	55.3	53.0	64.2
1994	49.7	61.6	49.0	47.3	54.9	51.8	62.9
1995	48.5	60.3	49.4	45.0	55.0	51.4	59.6
1996	46.6	59.8	50.3	43.7	55.4	51.5	59.7
1997	44.3	58.0	49.3	41.8	54.9	50.2	56.4
1998	44.4	57.6	48.8	41.4	53.7	49.3	52.8
1999	42.5	56.3	48.7	40.2	53.5	48.9	52.1
2000	41.0	54.7	45.7	39.8	52.5	47.0	49.0
2001	41.4	55.3	48.3	39.4	52.5	48.1	49.1
2002	40.6	55.5	48.5	39.7	53.4	48.2	50.0
2003	40.1	56.6	49.4	39.3	54.4	48.9	51.0
2004	40.1	56.4	48.6	39.1	54.1	48.4	50.8
2005	39.9	55.8	47.6	38.9	53.6	47.9	50.4

Source: BNP Paribas

Table I. PUBLIC EXPENDITURE AS A PERCENTAGE OF GDP (cont.)

	United Kingdom	Italy	Japan	Netherlands	New Zealand	United States	Sweden
1970	42.1	33.5	20.0	41.7		32.4	45.9
1971	41.3	35.9	21.3	43.2		32.5	46.9
1972	42.5	38.4	22.1	43.5		32.2	47.3
1973	43.2	37.2	22.6	43.6		31.3	45.8
1974	47.7	36.5	24.6	45.8		32.6	50.1
1975	48.9	42.0	26.4	50.3		35.1	51.4
1976	48.7	40.3	26.6	50.7		33.7	53.5
1977	46.1	40.3	27.7	49.9		32.8	57.5
1978	44.3	43.5	28.7	51.5		31.9	58.4
1979	43.3	42.7	29.9	53.3		31.9	60.8
1980	45.7	41.7	30.8	55.3		33.8	61.0
1981	49.1	45.6	31.8	57.1		34.2	63.4
1982	48.4	47.8	31.9	59.3		36.4	65.5
1983	48.2	50.0	32.1	59.5		36.7	65.0
1984	48.3	50.1	31.4	58.5		35.7	62.5
1985	46.8	50.9	31.0	57.1		36.5	63.7
1986	45.6	51.4	31.2	56.9		37.0	62.0
1987	43.6	50.8	31.7	58.4		36.7	58.3
1988	41.1	51.5	31.1	56.6		35.8	58.6
1989	40.5	52.8	30.5	54.5		35.6	58.6
1990	42.2	54.4	32.1	54.8		36.5	59.4
1991	44.0	55.5	31.8	54.8	51.5	37.2	62.3
1992	45.7	56.7	32.8	55.8	49.5	38.0	67.5
1993	45.7	57.7	34.7	56.0	46.0	37.5	73.0
1994	45.0	54.5	35.2	53.6	43.0	36.5	70.9
1995	44.6	53.4	36.1	51.4	41.9	36.4	67.6
1996	42.7	53.2	36.6	49.6	41.0	35.9	65.2
1997	41.0	51.1	35.4	48.2	41.6	34.8	63.1
1998	39.8	49.9	36.5	47.2	42.9	34.0	60.7
1999	39.2	48.9	38.1	46.9	41.4	33.7	60.2
2000	37.0	46.8	38.6	45.3	40.2	33.6	57.4
2001	40.3	48.5	38.0	46.6	39.1	34.7	57.1
2002	40.8	47.7	38.7	47.5	39.2	35.5	58.4
2003	42.8	48.5	38.3	48.6	39.8	35.9	59.0
2004	43.0	47.9	38.1	48.2	39.9	35.7	58.6
2005	43.4	48.5	38.1	47.8	39.9	35.7	57.5

Table II. TOTAL OF PUBLIC REVENUES AS A PERCENTAGE OF GDP (INCLUDING SOCIAL SECURITY CONTRIBUTIONS).

	1975	1985	1990	1995	1999	2000	2001
Canada	31.9	32.6	35.9	35.6	35.9	35.8	35.2
Mexico		17.0	17.3	16.6	17.3	18.5	18.3
United States	26.9	26.1	26.7	27.6	28.9	29.6	N/D
Australia	26.6	29.1	29.3	29.7	30.7	31.5	N/A
Japan	21.2	27.2	30.1	27.7	26.1	27.1	N/A
Korea	15.3	16.9	19.1	20.5	23.6	26.1	27.5
New Zealand	30.4	32.9	37.6	37.5	34.9	35.1	34.8
Austria	37.4	41.9	40.4	41.6	44.1	43.7	45.7
Belgium	40.1	45.6	43.2	44.6	45.4	45.6	45.3
Czech Republic				40.1	39.2	39.4	39.0
Denmark	40.0	47.4	47.1	49.4	51.2	48.8	49.0
Finland	36.8	40.1	44.8	45.0	46.8	46.9	46.3
France	35.9	43.8	43.0	44.0	45.7	45.3	45.4
Germany[1]	35.3	37.2	35.7	38.2	37.8	37.9	36.4
Greece	21.8	28.6	29.3	31.7	36.9	37.8	40.8
Hungary				42.4	39.1	39.1	38.6
Iceland	29.4	28.3	31.2	31.5	36.9	37.3	34.8

Source: OBCD.

1. Unified Germany since 1991

Table II. TOTAL OF PUBLIC REVENUES AS A PERCENTAGE OF GDP (INCLUDING SOCIAL SECURITY CONTRIBUTIONS). (cont.)

	1975	1985	1990	1995	1999	2000	2001
Ireland	29.1	35.0	33.5	32.7	31.3	31.1	29.2
Italy	26.1	34.4	38.9	41.2	43.3	42.0	41.8
Luxemburg	37.3	44.8	40.8	42.0	40.9	41.7	42.4
Netherlands	41.6	42.6	43.0	41.9	41.2	41.4	39.9
Norway	39.3	43.3	41.8	41.5	41.6	40.3	44.9
Poland				39.6	35.2	34.1	N/D
Portugal	20.8	26.6	29.2	32.5	34.1	34.5	N/D
Slovak Republic					35.3	35.8	33.1
Spain	18.8	27.8	33.2	32.8	35.0	35.2	35.2
Sweden[2]	42.3	48.5	53.6	47.6	52.0	54.2	53.2
Switzerland	27.9	30.2	30.6	33.1	34.5	35.7	34.5
Turkey	16.0	15.4	20.0	22.6	31.3	33.4	35.8
United Kingdom	35.3	37.7	36.8	34.8	36.4	37.4	37.4
Total OECD	30.5	33.9	35.1	36.1	37.1	37.4	
American OECD	29.4	25.2	26.7	26.6	27.4	28.0	
Pacific OECD	23.4	26.5	29.0	28.9	28.8	30.0	
European OECD	32.2	36.8	37.7	38.7	39.8	39.9	
EU 15	33.2	38.8	39.5	40.0	41.5	41.6	

2. These data are derived from *Statistics on public revenues*. After the publication of these statistics in July 2002, the Swedish authorities gave revised figures for 2000 and 2001. Total revenues as percentage of GDP were 53.6% in 2000 and 50.8% in 2001.

3. This table only encompasses taxes and social contributions. If one adds other public revenues, the figure becomes, for France, slightly higher than 50%, which is consistent with table I.

Table III. PUBLIC DEFICITS AS A PERCENTAGE OF GDP

	Germany	Denmark	Spain	Euro zone	Finland	France	United Kingdom
1970	0.5	0.9		3.9	1.2	2.6	-3.9
1971	0.2	5	-0.7		3.9	1.1	1.5
1972	-0.4	5.1	0.3		3.1	1.4	-1.7
1973	1.1	5.1	1.4		4.9	1.4	-3.7
1974	-1.7	3.8	0.2		4	0.9	-3.6
1975	-5.8	-1.3	0.1		5.1	-1.6	-4.6
1976	-3.5	0.2	-0.4		7.9	-0.1	-4.7
1977	-2.6	0.4	-0.8	-2.5	6.4	0	-3.3
1978	-2.6	0.4	-2.3	-3.4	4	-1.3	-4.4
1979	-2.7	-0.7	-2.1	-3.3	3.6	-0.1	-3.6
1980	-2.9	-2.4	-2.6	-3.1	3.9	0	-3.3
1981	-4	-5.9	-3.9	-5.2	5.3	-2.2	-4.4
1982	-3.5	-8.4	-5.6	-5.2	3.2	-2.9	-2.7
1983	-2.9	-6.4	-4.8	-5.1	1.6	-2.8	-3.4
1984	-2	-3.7	-5.5	-4.9	3.3	-2.8	-3.7
1985	-1.1	-1.4	-7	-5	3.5	-3	-2.9
1986	-1.1	3.3	-6	-4.9	4	-3.2	-2.6
1987	-1.8	2.5	-3.1	-4.6	1.6	-2	-1.8
1988	-2	1.5	-3.1	-4.4	5.3	-2.5	0.5
1989	0.1	0.3	-2.6	-3.7	6.9	-1.8	0.8
1990	-2	-1	-3.9	-4.6	5.5	-2.1	-1.6
1991	-3	-2.4	-4.6	-5	-1	-2.4	-3.1
1992	-2.6	-2.2	-3.7	-5.1	-5.5	-4.2	-6.4
1993	-3.1	-2.9	-7	-5.8	-7.2	-6	-7.9
1994	-2.4	-2.4	-6.5	-5.1	-5.7	-5.5	-6.7
1995	-3.3	-2.3	-6.6	-5	-3.9	-5.5	-5.8
1996	-3.4	-1	-5	-4.3	-2.9	-4.1	-4.2
1997	-2.7	0.4	-3.2	-2.6	-1.3	-3	-2.2
1998	-2.2	1.1	-3	-2.3	1.6	-2.7	0.1
1999	-1.5	3.2	-1.2	-1.3	2.2	-1.8	1.1
2000	1.3	2.5	-0.8	0.1	7.1	-1.4	3.9
2001	-2.8	2.8	-0.3	-1.7	5.2	-1.5	0.7
2002	-3.5	2	0.1	-2.3	4.2	-3.1	-1.5
2003	-4.1	0.8	0.1	-2.7	2.6	-4	-2.9
2004	-3.7	1	0.2	-2.6	1.9	-3.7	-2.9
2005	-3.5	1.5	0.3	-2.7	2	-3.5	-3.2

Source: BNP Paribas

Table III. PUBLIC DEFICITS AS A PERCENTAGE OF GDP (cont.)

	Italy	Japan	Netherlands	New Zealand	Portugal	United States	Sweden
1970	1.2	-1.1		2.3	-2	4.3	
1971	-5.7	0.8	-0.9		1.8	-2.7	5
1972	-8.2	-0.1	-0.5		0.6	-1.3	4.2
1973	-7.6	0.4	0.7		1.2	-0.2	3.8
1973	-7.5	0.3	-0.1		-1.4	-0.9	1.9
1975	-12.4	-2	-2.4		-4.6	-5.2	2.7
1976	-9.5	-2.7	-2		-5.9	-3.3	4.4
1977	-8.4	-2.8	-0.7		-3	-2.1	1.6
1978	-10.2	-4	-2		-7.5	-1.2	-0.4
1979	-9.9	-3.4	-2.7		-6.5	-0.9	-2.8
1980	-7.1	-3.2	-3.8		-7.6	-2.6	-4
1981	-11.1	-2.8	-4.8		-9.1	-2.2	-5.1
1982	-10.3	-2.6	-5.9		-7.6	-4.8	-6.8
1983	-10.3	-2.6	-5.1		-5.4	-5.6	-4.9
1984	-11.7	-1.5	-4.9		-5.8	-4.7	-2.9
1985	-12.7	-0.6	-3.2		-9.1	-5	-3.7
1986	-12.2	-0.7	-4.5	-6.7	-7.9	-5.3	-1.3
1987	-11.8	0.3	-5.3	-2.6	-7.2	-4.3	3.8
1988	-11.3	1.1	-4.2	-4	-3.8	-3.6	2.9
1989	-11.7	1.8	-5	-3.7	-3.1	-3.2	4.7
1990	-11.8	2	-5.3	-4.3	-6.6	-4.3	3.7
1991	-11.7	1.8	-2.7	-3.8	-7.6	-5	-1.9
1992	-10.7	0.8	-4.2	-3.3	-4.8	-5.9	-7.6
1993	-10.3	-2.4	-2.8	-1.3	-8.1	-5	-11.6
1994	-9.3	-3.7	-3.5	2.5	-7.7	-3.6	-10.5
1995	-7.6	-4.7	-4.2	3	-5.5	-3.1	-7.4
1996	-7.1	-5	-1.8	2.9	-4.8	-2.2	-2.9
1997	-2.7	-3.8	-1.1	1.9	-3.6	-0.9	-1.7
1998	-3.1	-5.5	-0.8	0.3	-3.2	0.3	2.3
1999	-1.8	-7.2	0.7	0.6	-2.9	0.7	1.3
2000	-0.7	-7.4	2.2	1.5	-2.9	1.4	3.4
2001	-2.7	-6.1	0	2	-4.3	-0.5	4.6
2002	-2.5	-7.1	-1.6	2.7	-2.7	-3.4	1.1
2003	-2.7	-7.4	-2.4	2.6	-2.9	-4.9	0.2
2004	-2.9	-6.8	-2.5	2.2	-3	-5.1	0.5
2005	-3.9	-6.9	-1.8	2	-2.3	-4.9	1

**Table IV: KEY FIGURES FOR EUROPEAN UNION MEMBER STATES
FISCAL DEFICITS (REFERENCE LIMIT : 3 % OF GDP)**

	1999	2000	2001	2002	2003*	2004*
Belgium	-0.5	0.1	0.4 (0.2)	0.1	0.2	-0.4
Denmark	3.3	2.6	3.1 (2.9)	2.0	0.9	1.3
Germany	-1.5	1.1 (-1.4)	-2.8	-3.6	-4.2	-3.9
Greece	-1.8	-1.9	-1.4 (-1.9)	-1.2	-1.7	-2.4
Spain	-1.2	-0.8 (-0.9)	-0.1	-0.1	0.0	0.1
France	-1.8	-1.4	-1.5 (-1.6)	-3.1	-4.2	-3.8
Ireland	2.3	4.3	1.1	-0.1	-0.9	-1.2
Italy	-1.7	-0.6 (-1.8)	-2.6	-2.3	-2.6	-2.8
Luxembourg	3.5	6.1	6.4	2.6	-0.6	-2.1
Netherland	0.7	2.2 (1.5)	0.1	-1.1	-2.6	-2.7
Austria	-2.3	-1.5 (-1.9)	0.3	-0.6	-1.0	-0.6
Portugal	-2.8	-2.8 (-3.1)	-4.2	-2.7	-2.9	-3.3
Finland	2.0	6.9	5.1	4.7	2.4	1.7
Sweden	1.5	3.4	4.5	1.3	0.2	0.5
United Kingdom	1.1	3.9(1.5)	0.8	-1.3	-2.8	-2.7
EU15	-0.7	0.9(-0.3)	-0.9	-1.9	-2.7	-2.6
Euro zone	-1.3	0.1(-1.0)	-1.6	-2.2	-2.8	-2.7

* Data provided by the Commission on the basis of forecasts of end 2003. Extraordinary receipts stemming from the selling of UMTS licenses have had a significant impact on some countries in 2000-2002. In these cases, the figures in brackets indicate the deficit without those extraordinary receipts.

Table IV: KEY FIGURES FOR EUROPEAN UNION MEMBER STATES (cont.)
PUBLIC DEBT : REFERENCE: 60 % OF GDP

	1999	2000	2001	2002	2003*	2004*
Belgium	114.9	109.6	108.5	105.3	103.5	101.0
Denmark	53.0	47.4	45.4	45.2	42.9	41.0
Germany	61.2	60.2	59.5	60.8	63.8	65.0
Greece	105.1	106.2	107.0	104.9	100.6	97.1
Spain	63.1	60.5	56.9	54.0	51.3	48.8
France	58.5	57.2	56.8	59.1	62.6	64.3
Ireland	49.3	39.3	36.8	33.3	33.5	33.8
Italy	114.9	110.6	109.5	106.7	106.4	106.1
Luxembourg	6.0	5.6	5.6	5.3	4.9	4.7
Netherland	63.1	55.8	52.8	52.6	54.6	55.5
Austria	67.5	66.8	67.3	68.7	66.4	65.2
Portugal	54.3	53.3	55.6	58.1	57.5	58.6
Finland	47.0	44.5	43.8	42.7	44.6	44.5
Sweden	62.7	52.8	54.4	52.6	51.7	51.4
United Kingdom	45.1	42.1	38.9	38.4	39.6	40.5
EU15	67.3	64.1	62.9	62.7	64.1	64.4
Zone euro	72.2	70.2	69.2	69.2	70.4	70.7

* Figures based on economic forecasts.
Source: Commission

Table V. PUBLIC DEBT AS A PERCENTAGE OF GDP (IN THE MAASTRICHT METHODOLOGY FOR EU COUNTRIES)

	Canada	Japan	New Zealand	United States	Denmark	Finland	France
1986	39.7	67.1		45.4			
1987	39.3	55.7		47.4			
1988	38.2	47.1		48.5			
1989	41.1	38.6		48.7			
1990	43.3	24.8		49.9			
1991	50.0	12.7		53.6			
1992	58.5	14.5		57.0			
1993	64.4	17.9	47.9	59.0	78.0	55.9	45.3
1994	67.4	20.5	40.8	59.4	73.5	58.0	48.4
1995	69.3	24.8	34.7	58.9	69.3	57.1	54.5
1996	67.5	30.5	30.7	58.3	65.1	57.1	57.1
1997	63.5	35.3	28.4	56.1	61.2	54.1	59.3
1998	60.8	46.2	25.9	52.3	56.2	48.6	59.5
1999	53.5	52.8	24.0	47.8	53.0	47.0	58.5
2000	44.9	58.6	20.9	42.9	47.3	44.6	57.1
2001	40.6	63.7	20.6	42.2	45.4	44.0	56.8
2002	38.0	71.8	18.1	44.4	45.5	42.7	58.9
2003	35.0	79.1	14.8	47.0	43.6	41.8	61.4
2004	32.8	85.7	11.8	49.5	41.7	42.1	63.8
2005	30.4	91.7	9.1	52.0	39.8	40.1	65.8

Source: BNP Paribas

Table V. PUBLIC DEBT AS A PERCENTAGE OF GDP (IN THE MAASTRICHT METHODOLOGY FOR EU COUNTRIES) (cont.)

	Germany	Italy	Netherlands	Spain	Sweden	United Kingdom
1986						
1987						
1988						
1989						
1990						
1991						
1992						
1993	46.9	118.2	79.3	58.4		45.4
1994	49.3	123.8	76.4	61.1	73.8	48.5
1995	57.0	123.1	77.2	63.9	73.6	51.8
1996	59.8	122.2	75.2	68.1	73.5	52.2
1997	61.0	120.2	69.9	66.6	70.5	50.8
1998	60.9	116.3	66.8	64.6	68.0	47.6
1999	61.2	115.0	63.1	63.1	62.7	45.0
2000	60.2	110.5	55.9	60.5	52.8	42.1
2001	59.5	109.5	52.9	56.8	54.4	38.9
2002	60.8	106.7	52.4	53.8	52.7	38.5
2003	63.3	106.4	54.1	51.5	52.1	39.7
2004	64.7	106.0	55.9	49.1	51.6	41.0
2005	65.8	105.9	56.3	46.8	50.9	42.2

Table VI. GENERAL PUBLIC ADMINISTRATION DEFICITS AS A PERCENTAGE OF NET PRIVATE SAVINGS

	Belgium	Canada	Denmark	France	Germany	Ireland	Italy
1970	-12.8	6.0					
1971	-19.5	-2.3	157.8				
1972	-27.2	-1.9	79.5				
1973	-22.9	14.3	82.2				
1974	-17.1	20.5	94.3				
1975	-35.3	-23.1	-19.7				
1976	-34.7	-15.9	3.9				
1977	-39.7	-28.1	7.3				
1978	-43.0	-33.6	7.4	-13.1			
1979	-60.7	-20.2	-14.5	-1.6			
1980	-76.2	-24.9	-54.6	-0.7			-43.2
1981	-123.6	-23.8	-121.1	-33.9			-64.8
1982	-112.4	-55.9	-117.9	-52.1			-63.5
1983	-128.7	-59.4	-88.3	-46.7			-59.6
1984	-89.2	-53.4	-51.1	-50.1			-64.7
1985	-83.9	-61.6	-26.4	-51.8			-70.5
1986	-73.3	-61.5	152.4	-42.3			-70.0
1987	-61.5	-45.4	90.2	-30.4			-71.0
1988	-48.2	-36.3	39.2	-31.6			-69.6
1989	-43.6	-40.0	6.2	-22.8			-72.7
1990	-39.8	-61.2	-13.6	-27.3		-26.5	-75.1
1991	-45.1	-90.6	-32.1	-32.4	-30.5	-28.3	-77.0
1992	-46.9	-104.5	-30.3	-48.8	-28.5	-36.4	-71.7
1993	-43.4	-96.2	-42.4	-66.6	-38.6	-27.4	-73.4
1994	-31.3	-72.2	-38.5	-63.9	-30.6	-23.9	-68.2
1995	-28.3	-52.9	-30.7	-61.2	-110.8	-18.0	-56.3
1996	-28.2	-34.7	-16.7	-52.2	-39.0	-1.2	-51.2
1997	-15.4	3.0	6.5	-34.3	-32.7	12.1	-26.7
1998	-6.4	1.5	26.1	-30.0	-28.1	17.9	-32.8
1999	-3.9	28.3	107.2	-20.4	-23.2	22.5	-25.2
2000	1.2	39.1	51.5	-16.8	18.1	57.4	-10.0
2001	5.5	24.7	54.8	-19.0	-45.1	13.2	-37.2
2002	0.4		31.1	-36.4	-46.3		-34.1

Source: BNP Paribas

Table VI. GENERAL PUBLIC ADMINISTRATION DEFICITS AS A PERCENTAGE OF NET PRIVATE SAVINGS (cont.)

	Japan	Netherlands	New Zealand	Sweden	United Kingdom	United States
1970					47.9	-19.5
1971					24.4	-24.7
1972					-21.2	-11.0
1973					-39.1	0.7
1974					-64.3	-5.7
1975					-86.5	-45.0
1976					-64.1	-29.7
1977					-40.7	-18.0
1978					-44.3	-8.1
1979					-38.5	-4.6
1980					-56.6	-22.8
1981					-83.4	-17.6
1982					-57.6	-44.0
1983					-58.2	-57.6
1984					-57.7	-39.6
1985					-46.6	-48.1
1986			-156.1		-48.5	-61.7
1987		-43.4	-55.6		-37.0	-52.5
1988		-32.2	-99.7		15.8	-39.2
1989		-31.8	-70.1		33.5	-39.8
1990	17.2	-35.2	-98.9		-63.1	-52.8
1991	15.6	-21.9	-224.0		-94.9	-57.1
1992	7.4	-33.1	-173.7		-115.3	-67.6
1993	-21.6	-24.4	-16.0	-184.3	-118.9	-62.5
1994	-35.0	-24.5	-2195.4	-91.7	-86.7	-48.9
1995	-43.8	-56.5	-2060.8	-57.6	-78.1	-39.6
1996	-46.7	-13.3	-216.2	-34.0	-62.6	-29.4
1997	-34.2	-7.8	-345.0	-22.0	-31.9	-10.7
1998	-96.4	-6.9		40.1	4.2	10.5
1999	-62.8	6.2		22.6	41.2	24.3
2000	-67.0	21.0		74.0	80.9	51.0
2001	-65.3	1.6		181.2	34.7	-6.8
2002				22.9	-26.8	-78.5

Table VII. INTEREST PAYMENTS (NET) ON PUBLIC DEBT AS A PERCENTAGE OF GDP

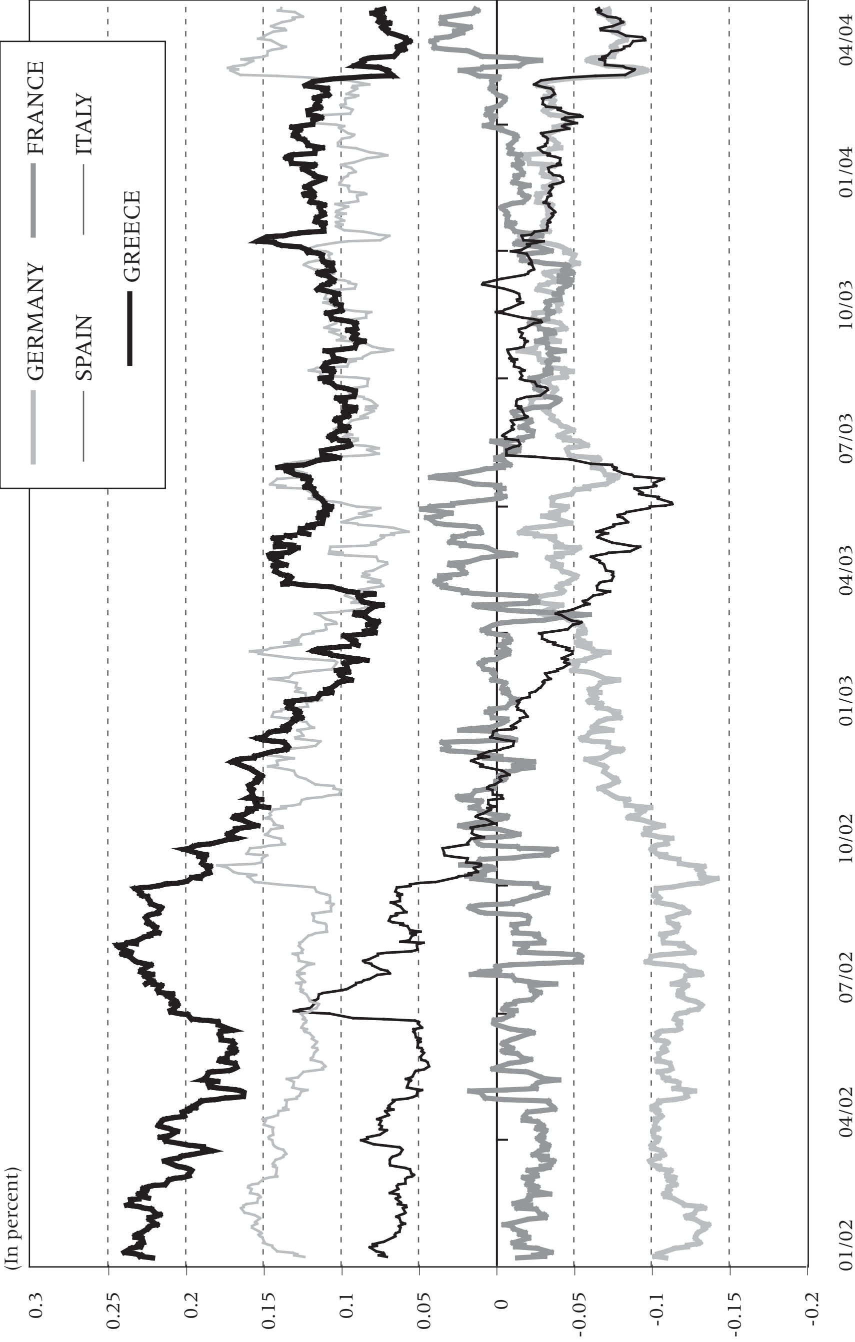
	Germany	Denmark	Spain	Euro Zone	France	United Kingdom
12/31/70	0.5		-0.2		0.5	2.4
12/31/71	0.6	-0.3	-0.2		0.4	2.0
12/29/72	0.7	-0.4	-0.1		0.3	2.0
12/31/73	0.7	-0.2	-0.0		0.1	2.0
12/31/74	1.0	-0.6	-0.1		0.1	2.3
12/31/75	1.2	-0.9	-0.1		0.5	2.2
12/31/76	1.4	-0.9	-0.2		0.5	2.5
12/30/77	1.5	-0.5	-0.1	1.4	0.5	2.6
12/29/78	1.4	-0.3	-0.1	1.6	0.6	2.7
12/31/79	1.4	0.9	-0.0	1.7	0.8	2.9
12/31/80	1.6	0.9	0.1	1.9	0.8	3.3
12/31/81	2.0	2.1	0.1	2.3	1.2	3.5
12/31/82	2.4	2.7	0.1	2.8	1.2	3.4
12/30/83	2.6	4.5	0.4	3.4	1.7	3.3
12/31/84	2.6	5.7	1.1	3.7	1.9	3.6
12/31/85	2.6	6.2	2.3	3.9	2.1	3.5
12/31/86	2.5	5.1	2.9	4.1	2.2	3.4
12/31/87	2.5	5.0	2.5	3.9	2.2	3.3
12/30/88	2.5	4.3	2.8	4.0	2.1	2.9
12/29/89	2.3	4.0	2.9	4.2	2.2	2.7
12/31/90	2.2	3.8	3.1	4.5	2.4	2.6
12/31/91	2.3	4.0	3.3	4.8	2.6	2.3
12/31/92	2.7	3.2	3.7	5.2	2.7	2.3
12/31/93	2.8	3.5	4.7	5.3	3.0	2.4
12/30/94	2.8	3.3	4.6	5.0	3.1	2.6
12/29/95	3.2	3.1	4.9	5.0	3.3	2.9
12/31/96	3.2	2.9	5.0	5.2	3.4	2.9
12/31/97	3.2	2.9	4.4	4.7	3.3	3.0
12/31/98	3.3	2.5	4.0	4.4	3.2	2.8
12/31/99	3.1	2.4	3.3	3.9	3.0	2.3
12/29/00	2.9	2.1	3.1	3.6	2.9	2.1
12/31/01	2.8	1.8	2.8	3.5	2.9	1.8
12/31/02	2.6	1.6	2.6	3.2	2.8	1.5
12/31/03	2.7	1.4	1.8	3.1	2.8	1.6
12/31/04	2.7	1.3	1.8	3.0	2.8	1.6
12/30/05	2.7	1.3	2.1	3.0	2.8	1.6

Source: BNP Paribas

Table VII. INTEREST PAYMENTS (NET) ON PUBLIC DEBT AS A PERCENTAGE OF GDP (cont.)

	Italy	Japan	Netherlands	New Zealand	United States	Sweden
12/31/70	0.8	-0.1	1.6		1.6	-0.6
12/31/71	1.0	-0.2	1.6		1.5	-0.7
12/29/72	1.2	-0.1	1.5		1.5	-0.9
12/31/73	1.3	-0.1	1.4		1.5	-1.1
12/31/74	1.7	-0.1	1.5		1.5	-1.1
12/31/75	2.5	0.1	1.5		1.6	-1.1
12/31/76	2.9	0.4	1.6		1.8	-1.2
12/30/77	3.2	0.7	1.6		1.7	-1.1
12/29/78	3.8	0.9	1.7		1.7	-1.1
12/31/79	3.7	1.2	1.7		1.7	-1.0
12/31/80	4.0	1.5	2.1		1.9	-0.4
12/31/81	4.5	1.7	2.7		2.3	0.4
12/31/82	6.2	1.9	3.5		2.7	1.6
12/30/83	7.5	2.2	3.9		2.8	1.8
12/31/84	8.1	2.3	4.1		3.1	2.3
12/31/85	8.1	2.2	4.3		3.2	2.9
12/31/86	8.3	2.1	4.4	4.3	3.3	2.2
12/31/87	7.6	1.9	4.5	4.1	3.3	1.7
12/30/88	8.1	1.7	4.5	3.4	3.3	1.0
12/29/89	9.0	1.5	4.0	3.7	3.4	0.6
12/31/90	9.9	1.3	4.0	4.2	3.5	0.2
12/31/91	11.3	1.1	4.3	3.2	3.7	0.2
12/31/92	12.2	1.1	4.5	2.8	3.7	0.4
12/31/93	12.6	1.2	4.5	2.5	3.6	-0.4
12/30/94	11.0	1.2	4.4	1.4	3.5	0.8
12/29/95	10.9	1.3	4.7	1.4	3.6	1.4
12/31/96	10.9	1.3	4.7	0.8	3.5	1.6
12/31/97	8.8	1.3	4.5	0.6	3.3	2.0
12/31/98	7.8	1.4	4.2	0.4	3.2	1.4
12/31/99	6.2	1.5	3.9	0.1	2.8	1.4
12/29/00	6.0	1.5	3.2	0.1	2.6	0.8
12/31/01	5.9	1.4	2.6	-0.1	2.3	0.8
12/31/02	5.3	1.5	2.4	-0.3	2.0	0.9
12/31/03	4.9	1.7	2.2	-0.4	1.7	0.3
12/31/04	4.7	1.8	2.3	-0.4	1.7	0.3
12/30/05	4.8	1.8	2.2	-0.4	1.8	0.3

Table VIII, TEN YEAR SPREAD: COUNTRY - EUROLAND



Source: Banques Central

Table IX: GENERAL GOVERNMENT CYCLICALLY-ADJUSTED FINANCIAL BALANCE SURPLUS (+) OR DEFICIT (-) AS A PERCENTAGE OF NOMINAL GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	-3.5	-2.0	-0.3	0.4	1.4	0.3	-0.2	1.0	1.1	0.7	0.7
Austria	-5.1	-3.9	-1.9	-2.9	-2.9	-2.8	-0.1	-0.3	-0.9	-0.6	-1.3
Belgium	-3.5	-2.3	-1.5	-0.5	-0.9	-1.4	-0.2	0.5	1.4	1.3	0.3
Canada	-4.8	-1.8	0.9	0.6	1.4	2.2	1.2	0.5	1.1	0.6	0.7
Denmark	-2.3	-1.2	-0.4	0.3	2.2	1.2	2.1	1.6	1.7	1.7	1.8
Finland	1.5	1.3	0.7	2.4	2.8	6.4	5.5	4.8	4.2	2.9	2.2
France	-4.5	-2.6	-1.4	-1.6	-1.2	-1.6	-1.7	-3.0	-2.9	-2.5	-2.4
Germany	-2.8	92.5	-1.7	-1.4	-0.9	-1.4	-2.6	-2.6	-2.3	-1.9	-2.1
Greece	-8.3	-5.7	-2.8	-1.2	-0.6	-1.2	-1.7	-1.5	-2.0	-2.1	-2.0
Iceland	-0.6	-0.5	0.2	-0.1	1.5	0.8	-1.2	-1.5	-1.0	0.1	0.3
Ireland	-1.2	0.5	1.1	2.1	1.1	2.4	-1.0	2.4	-1.9	-1.7	-1.8
Italy	-7.1	-6.3	-2.2	-2.7	-1.3	-2.1	-2.9	-2.1	-1.8	-2.1	-3.4
Japan[a]	-4.5	-5.3	-4.1	-5.2	-6.5	-7.1	-5.5	-6.3	-6.9	-6.5	-6.6
Netherlands	-4.3	-2.2	-1.9	-2.2	-1.5	-1.1	-1.7	-1.8	-1.2	-0.5	-0.2
New Zealand	2.4	2.1	1.7	1.6	1.2	1.3	1.7	2.1	2.3	2.0	2.0
Norway[b]	-2.1	-2.0	-1.5	-2.6	-1.5	-0.1	-0.3	-1.3	-1.6	-1.7	-2.3
Portugal	-4.7	-4.5	-3.7	-3.8	-3.8	-4.2	-4.7	-2.3	-1.6	-1.7	-1.3
Spain	-4.9	-3.1	-1.8	-2.3	-1.0	-1.3	-0.4	0.2	0.5	0.4	0.3
Sweden	-5.5	-0.5	0.2	3.2	0.9	1.9	4.1	0.8	0.6	0.8	0.9
United Kingdom	*4.9	-3.4	-1.9	0.1	1.1	0.9	0.5	-1.3	-2.3	-2.5	-3.0
Euro area	-4.2	-3.1	-1.6	-1.7	-1.0	-1.4	-1.9	-1.9	-1.7	-1.5	-1.8
European Union	-4.5	-3.3	-1.7	-1.3	-0.7	-1.0	-1.3	-1.7	-1.7	-1.5	-1.9
Total OECD	-3.8	-3.0	-1.7	-1.4	-1.2	-1.1	-1.4	-2.8	-3.4	-3.6	-3.7

Note: Cyclically-adjusted financial balances exclude one-off revenues from the sale of the mobile telehone licences for those countries that have recorded the proceeds as negative expenditure at the time the licence was allocated. See OECD Economic Outlook Sources and Methods (http://www.oecd.org/eco/sources-and-methods) for details on the methodology used for estimating the cyclical component of government balances.

a) Deferred tax payments on postal savings accounts are included in 2000–2002.
b) As a percentage of mainland potential GDP. The cyclically-adjusted balances shown exclude revenues from petroleum activities.
Source: OBCD.

TABLE X.
PENSION EXPENDITURE PROJECTIONS
(In percent of GDP before tax)

Central Scenario	2000	2010	2020	2030	2040	2050	Change 2000–Peak Year
France	12.1	13.1	15.0	16.0	15.8	n.a.	4.0
Germany	11.8	11.2	12.6	15.5	16.6	16.9	5.0
Italy	13.8	13.9	14.8	15.7	15.7	14.1	2.1
Spain	9.4	8.9	9.9	12.6	16.0	17.3	7.9

CHANGE 2000-PEAK YEAR

Alternative scenarios	Low population growth	Low participation rate[1]	Low productivity growth[2]	Low interest rate[3]
France	4.0	4.5	n.a.	4.0
Germany	4.1	5.4	5.0	5.0
Italy	3.0	2.6	3.3	2.1
Spain	9.2	8.9	9.7	7.9

Source: Economic Policy Committee, ECOFIN.

1 Assumed to be 5 percentage points lower than in the central scenario by 2050.

2 Assumed to fall to between 3 an 5 percent by 2050.

3 Assumed to be 1 percentage point lower than in the central scenario

Group of Thirty Members

Mr. Paul A. Volcker
Chairman of the Board of Trustees
Group of Thirty

Rt. Hon. Lord Richardson of Duntisbourne, KG
Honorary Chairman, Group of Thirty

Dr. Jacob A. Frenkel
Chairman, Group of Thirty
Chairman, Merrill Lynch International, Inc

Dr. Josef Ackermann
Spokesman of the Board of Managing Directors
Deutsche Bank AG

Mr. Leszek Balcerowicz
President, National Bank of Poland

Mr. Geoffrey L. Bell
Executive Secretary, Group of Thirty
President, Geoffrey Bell & Company, Inc.

Mr. Jaime Caruana
Governor
Banco de Espana

Dr. Domingo Cavallo
Robert Kennedy Visiting Professor in Latin American Studies
Department of Economics, Harvard University

Mr. E. Gerald Corrigan
Managing Director, Goldman Sachs & Co.

Mr. Andrew D. Crockett
President, JP Morgan Chase International

Guillermo de la Dehesa Romero
Director and Member of the Executive Committee, Banco Santander Central Hispano

Mr. Martin Feldstein
President, National Bureau of Economic Research

Professor Gerhard Fels
Director, Institut der deutschen Wirtschaft

Mr. Stanley Fischer
President, Citigroup International

Mr. Arminio Fraga Neto
Partner, Gavea Investimentos

Mr. Toyoo Gyohten
President, Institute for International Monetary Affairs

Mr. Gerd Häusler
Counsellor and Director, International Capital Markets Department
International Monetary Fund

Mr. John G. Heimann
Senior Advisor, Financial Stability Institute

Professor Peter B. Kenen
Walker Professor of Economics & International Finance,
Department of Economics, Princeton University

Mr. Mervyn King
Governor, Bank of England

Professor Paul Krugman
Professor of Economics, Woodrow Wilson School, Princeton University

M. Jacques de Larosière
Conseiller, BNP Paribas

Mr. Guillermo Ortiz Martinez
Governor, Banco de Mexico

Dr. Sylvia Ostry
Distinguished Research Fellow, Munk Centre for International Studies, Toronto

Dr. Tommaso Padoa-Schioppa
Member of the Executive Board, European Central Bank

Mr. William R. Rhodes
Senior Vice Chairman, Citigroup
Chairman, Citicorp and Citibank

Mr. Lawrence Summers
President, Harvard University

M. Jean-Claude Trichet
President, European Central Bank

Sir David Walker
Treasurer, Group of Thirty
Senior Advisor, Morgan Stanley International Inc.

Dr. Marina v N. Whitman
Professor of Business Administration & Public Policy,
University of Michigan

Mr. Yutaka Yamaguchi
Former Deputy Governor, Bank of Japan

EMERITUS MEMBERS

Mr. Richard A. Debs
Advisory Director, Morgan Stanley & Co.

Dr. Wilfried Guth
Deutsche Bank AG

Mr. Erik Hoffmeyer
Former Chairman, Danmarks Nationalbank

Mr. Shijuro Ogata
Former Deputy Governor, Bank of Japan

Mr. William McDonough
Chairman, Public Company Accounting Oversight Board

Mr. Ernest Stern
Former Managing Director, J.P. Morgan Chase & Co.

EXECUTIVE DIRECTOR

John G. Walsh
The Group of Thirty

Group Of Thirty Publications Since 1989

REPORTS

Key Issues in Sovereign Debt Restructuring
Study Group Report. 2002

Reducing the Risks of International Insolvency
A Compendium of Work in Progress. 2000

Collapse: The Venezuelan Banking Crisis of '94
Ruth de Krivoy. 2000

The Evolving Corporation: Global Imperatives and National Responses
Study Group Report. 1999

International Insolvencies in the Financial Sector
Study Group Report. 1998

Global Institutions, National Supervision and Systemic Risk
Study Group on Supervision and Regulation. 1997

Latin American Capital Flows: Living with Volatility
Latin American Capital Flows Study Group. 1994

Defining the Roles of Accountants,
Bankers and Regulators in the United States
Study Group on Accountants, Bankers and Regulators. 1994

EMU after Maastricht
Peter B. Kenen. 1992

Sea Changes in Latin America
Pedro Aspe, Andres Bianchi and Domingo Cavallo, with discussion by S.T. Beza and William Rhodes. 1992

The Summit Process and Collective Security:
Future Responsibility Sharing
The Summit Reform Study Group. 1991

Financing Eastern Europe
Richard A. Debs, Harvey Shapiro, and Charles Taylor. 1991

The Risks Facing the World Economy
The Risks Facing the World Economy Study Group. 1991

Perestroika: A Sustainable Process for Change
John P. Hardt and Sheila N. Heslin, with commentary by Oleg Bogomolov. 1989

THE WILLIAM TAYLOR MEMORIAL LECTURES

Implications of Basel II for Emerging Market Countries
Stanley Fisher. 2003

Issues in Corporate Governance
William J. McDonough. 2003

Post Crisis Asia: The Way Forward
Lee Hsien Loong. 2001

Licensing Banks: Still Necessary?
Tomasso Padoa-Schioppa. 2000

Banking Supervision and Financial Stability
Andrew Crockett. 1998

Global Risk Management
Ulrich Cartellieri and Alan Greenspan. 1996

The Financial Disruptions of the 1980s: A Central Banker Looks Back
E. Gerald Corrigan. 1993

SPECIAL REPORTS

Enhancing Public Confidence in Financial Reporting
Steering & Working Committees on Accounting. 2004

Global Clearing and Settlement: A Plan of Action
Steering & Working Committees of Global Clearing & Settlements Study. 2003

Derivatives: Practices and Principles: Follow-up Surveys of Industry Practice
Global Derivatives Study Group. 1994

Derivatives: Practices and Principles, Appendix III: Survey of Industry Practice
Global Derivatives Study Group. 1994

Derivatives: Practices and Principles, Appendix II: Legal Enforceability: Survey of Nine Jurisdictions
Global Derivatives Study Group. 1993

Derivatives: Practices and Principles, Appendix I: Working Papers
Global Derivatives Study Group. 1993

Derivatives: Practices and Principles
Global Derivatives Study Group. 1993

Clearance and Settlement Systems: Status Reports, Autumn 1992
Various Authors. 1992

Clearance and Settlement Systems: Status Reports, Year-End 1990
Various Authors. 1991

Conference on Clearance and Settlement Systems; London, March 1990: Speeches
Various Authors. 1990

Clearance and Settlement Systems: Status Reports, Spring 1990
Various Authors. 1990

Clearance and Settlement Systems in the World's Securities Markets
Steering & Working Committees of the Securities Clearance and Settlement Study. 1989

OCCASIONAL PAPERS

68. External Transparency In Trade Policy
Sylvia Ostry

67. America Capitalism and Global Covergence
Marina V. N. Whitman

66. Enron et al: Market Forces in Disarray
Jaime Caruana, Andrew Crockett, Douglas Flint, Trevor Harris, Tom Jones. 2002

65. Venture Capital in the United States and Europe
Guillermo de la Dehesa

64. Explaining the Euro to a Washington Audience
Tomasso Padoa-Schioppa. 2001

63. Exchange Rate Regimes: Some Lessons from Postwar Europe
Charles Wyplosz. 2000

62. Decisionmaking for European Economic and Monetary Union
Erik Hoffmeyer. 2000

61. Charting a Course for the Multilateral Trading System: The Seattle Ministerial Meeting and Beyond
Ernest Preeg. 1999

60. Exchange Rate Arrangements for the Emerging Market Economies
Felipe Larraín and Andrés Velasco. 1999

59. G3 Exchange Rate Relationships:
A Recap of the Record and a Review of Proposals for Change
Richard Clarida. 1999

58. Real Estate Booms and Banking Busts: An International Perspective
Richard Herring and Susan Wachter. 1999

57. The Future of Global Financial Regulation
Sir Andrew Large. 1998

56. Reinforcing the WTO
Sylvia Ostry. 1998

55. Japan: The Road to Recovery
Akio Mikuni. 1998

54. Financial Services in the Uruguay Round and the WTO
Sydney J. Key. 1997

53. A New Regime for Foreign Direct Investment
Sylvia Ostry. 1997

52. Derivatives and Monetary Policy
Gerd Hausler. 1996

51. The Reform of Wholesale Payment Systems
and its Impact on Financial Markets
David Folkerts-Landau, Peter Garber, and Dirk Schoenmaker. 1996

50. EMU Prospects
Guillermo de la Dehesa and Peter B. Kenen. 1995

49. New Dimensions of Market Access
Sylvia Ostry. 1995

48. Thirty Years in Central Banking
Erik Hoffmeyer. 1994

47. Capital, Asset Risk and Bank Failure
Linda M. Hooks. 1994

46. In Search of a Level Playing Field: The Implementation of the Basle Capital Accord in Japan and the United States
Hal S. Scott and Shinsaku Iwahara. 1994

45. The Impact of Trade on OECD Labor Markets
Robert Z. Lawrence. 1994

44. Global Derivatives: Public Sector Responses
James A. Leach, William J. McDonough, David W. Mullins, Brian Quinn. 1993

43. The Ten Commandments of Systemic Reform
Vaclav Klaus. 1993

42. Tripolarism: Regional and Global Economic Cooperation
Tommaso Padoa-Schioppa. 1993

41. The Threat of Managed Trade to Transforming Economies
Sylvia Ostry. 1993

40. The New Trade Agenda
Geza Feketekuty. 1992

39. EMU and the Regions
Guillermo de la Dehesa and Paul Krugman. 1992

38. Why Now? Change and Turmoil in U.S. Banking
Lawrence J. White. 1992

37. Are Foreign-owned Subsidiaries Good for the United States?
Raymond Vernon. 1992

36. The Economic Transformation of East Germany: Some Preliminary Lessons
Gerhard Fels and Claus Schnabel. 1991

35. International Trade in Banking Services: A Conceptual Framework
Sydney J. Key and Hal S. Scott. 1991

34. Privatization in Eastern and Central Europe
Guillermo de la Dehesa. 1991

33. Foreign Direct Investment: The Neglected Twin of Trade
DeAnne Julius. 1991

32. Interdependence of Capital Markets and Policy Implications
Stephen H. Axilrod. 1990

31. Two Views of German Reunification
Hans Tietmeyer and Wilfried Guth. 1990

30. Europe in the Nineties: Problems and Aspirations
Wilfried Guth. 1990

29. Implications of Increasing Corporate Indebtedness for Monetary Policy
Benjamin M. Friedman. 1990

28. Financial and Monetary Integration in Europe: 1990, 1992 and Beyond
Tommaso Padoa-Schioppa. 1990

27. Reciprocity and the Unification of the European Banking Market
Douglas Croham. 1989

26. Japan's Savings and External Surplus in the World Economy
Masaru Yoshitomi. 1989

25. 1992: The External Dimension
David Henderson. 1989