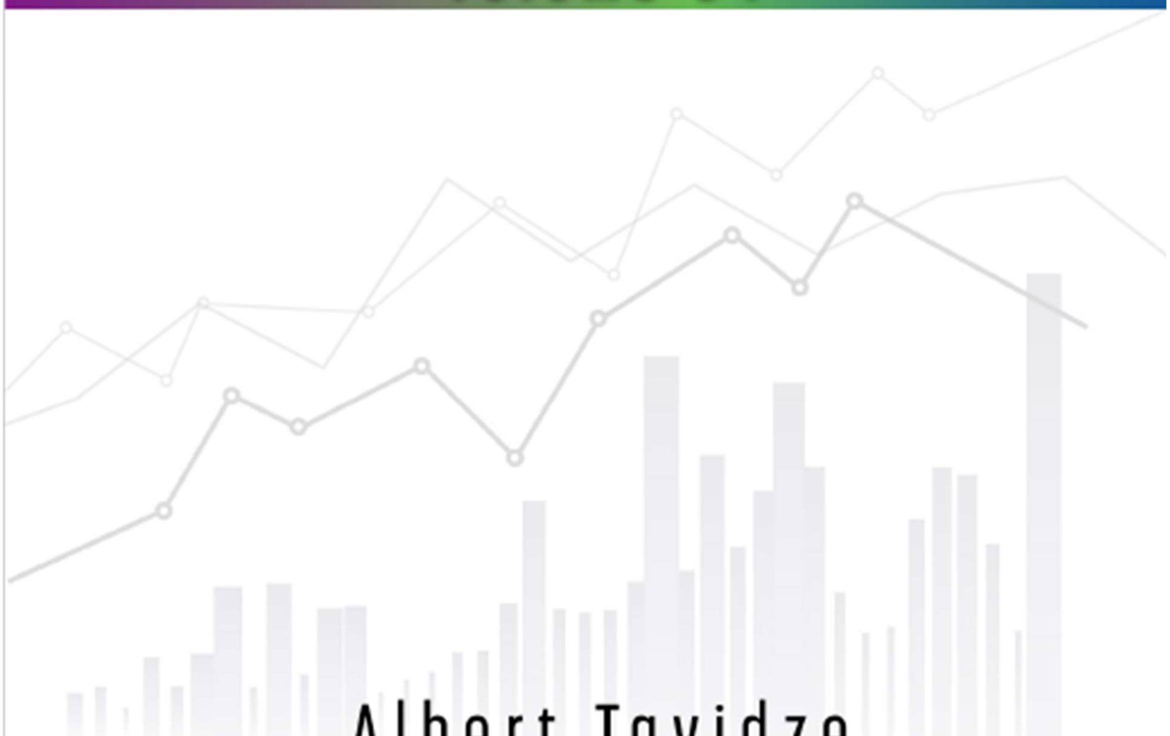
Progress in

Economics Research

Volume 54



Albert Tavidze

Editor

Progress in Economics Research

Progress in Economics Research. Volume 53
Albert Tavidze (Editor)
2024. ISBN: 979-8-89113-826-1 (Hardcover)
2024. ISBN: 979-8-89530-063-3 (eBook)

Progress in Economics Research. Volume 52
Albert Tavidze (Editor)
2024. ISBN: 979-8-89113-625-0 (Hardcover)
2024. ISBN: 979-8-89113-645-8 (eBook)

Progress in Economics Research. Volume 51
Albert Tavidze (Editor)
2023. ISBN: 979-8-88697-955-8 (Hardcover)
2023. ISBN: 979-8-88697-986-2 (eBook)

Progress in Economics Research. Volume 50
Albert Tavidze (Editor)
2023. ISBN: 979-8-88697-546-8 (Hardcover)
2023. ISBN: 979-8-88697-596-3 (eBook)

Progress in Economics Research. Volume 49
Albert Tavidze (Editor)
2022. ISBN: 978-1-68507-867-6 (Hardcover)
2022. ISBN: 78-1-68507-944-4 (eBook)

Progress in Economics Research. Volume 48
Albert Tavidze (Editor)
2021. ISBN: 978-1-68507-308-4 (Hardcover)
2021. ISBN: 978-1-68507-331-2 (eBook)

More information about this series can be found at
https://novapublishers.com/product-category/series/progress-in-economics-research/

NOTICE TO THE READER

The Publisher has taken reasonable care in the preparation of this book but makes no expressed or implied warranty of any kind and assumes no responsibility for any errors or omissions. No liability is assumed for incidental or consequential damages in connection with or arising out of information contained in this book. The Publisher shall not be liable for any special, consequential, or exemplary damages resulting, in whole or in part, from the readers' use of, or reliance upon, this material. Any parts of this book based on government reports are so indicated and copyright is claimed for those parts to the extent applicable to compilations of such works.

Independent verification should be sought for any data, advice or recommendations contained in this book. In addition, no responsibility is assumed by the Publisher for any injury and/or damage to persons or property arising from any methods, products, instructions, ideas or otherwise contained in this publication.

This publication is designed to provide accurate and authoritative information with regards to the subject matter covered herein. It is sold with the clear understanding that the Publisher is not engaged in rendering legal or any other professional services. If legal or any other expert assistance is required, the services of a competent person should be sought. FROM A DECLARATION OF PARTICIPANTS JOINTLY ADOPTED BY A COMMITTEE OF THE AMERICAN BAR ASSOCIATION AND A COMMITTEE OF PUBLISHERS.

Library of Congress Cataloging-in-Publication Data

ISBN: 979-8-89530-106-7 (Hardcover)
ISBN: 979-8-89530-137-1 (eBook)
ISSN: 1549-1552

Published by Nova Science Publishers, Inc. † New York

Contents

Chapter 3

The Imperative to Reform Economic Governance in the European Union: Searching for a Silver Bullet

José Manuel Martins Caetano[*]
Department of Economics, University of Évora, Évora, Portugal

Abstract

The euro has faced significant challenges due to inherent deficiencies in its governance structure, which were brought to light during the sovereign debt crisis. In order to reinforce budgetary discipline in the European Union (EU), reforms have been introduced which have undermined the budgetary sovereignty of the Member States (MS) in favour of the EU institutions. The advent of the global pandemic has underscored the need for a novel regulatory framework that can address the existing social, economic, and ecological disparities. This chapter revisits the debate triggered by the several proposals to reform the EU´s fiscal governance framework and assess their potential impact on MS´s public finances, aiming at providing a critical analysis of how those proposals were reflected in the new legislation. It has been proposed that expenditures by MS on investments in the green and digital transitions be excluded from budget compliance indicators for highly indebted countries, with the aim of enhancing their resilience. However, it is believed that the reform of the Stability and Growth Pact rules should have been more comprehensive, and it failed to meet the essential requirements. It is unlikely that the current framework will resolve the structural weaknesses in the European Monetary Union, especially the

---

[*] Corresponding Author's Email: jcaetano@uevora.pt.

In: Progress in Economics Research. Volume 54
Editor: Albert Tavidze
ISBN: 979-8-89530-106-7

because they can exit it only with compliance with the fiscal deficit limit of 3% of GDP. Although this may not have been the initial objective at the outset of the EDP, it is a possible consequence of its conclusion. In light of the aforesaid reflexions, the lack of clarity and specification regarding the implementation of the EDP based on the deficit may probably undermine the reform´s credibility. In essence, this situation perpetuates the EU's unfortunate tradition of creating new regulations on top of existing ones, resulting in pointless complexity and obscuring the significance of the transition to a medium-term approach (Pench, 2024).

Furthermore, it was previously stated that enhanced coordination of fiscal policies would be beneficial for fiscal guidance within the EA. However, the fact that the MTFSP are exclusive to each country will undoubtedly result in bilateral negotiations, with the potential for these not to consider eventual negative externalities on other EA members. This is at odds with the stipulations set forth in the SGP, which specifies that reforms and investment commitments that justify extending the adjustment must be oriented towards EU priorities. Consequently, the new approach may be less focused on common objectives, thereby complicating the role of common monetary policymakers in defining the aggregate fiscal stance in the ZE.

Conclusion

The EC's original proposal to review the SGP was based on two fundamental guidelines. Firstly, the focus of the annual evolution of MS public finances was to be shifted towards a long-term vision, aligned with the notion of sustainability. Secondly, procyclical measures were to be avoided in response to frequent EC recommendations. Moreover, the assessment of the fiscal policy of the MS was to be conducted on the basis of the net expenditure benchmark, as opposed to the budget balance. In order to integrate these two aspects, the EC would implement a medium-term DSA, proposing a multi-year trajectory for a plausible level of public spending. Any divergence from this trajectory would be subject to monitoring and, if necessary, enforcement of sanctions. The standards set forth in the previous SGP were intended to be readily coherent; however, they were ultimately deemed to be discretionary and controversial, with the majority of MS querying them. Therefore, despite the successive reforms it underwent, the SGP was unable to achieve the desired level of fiscal discipline.