

## **Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach**

*Meeting to discuss the European Commission's review of the EU Economic Governance Framework.*

Opening statement by Dr. Dirk Ehnts

In a communication from October 19, 2021, the Commission is relaunching the public debate on the review of the EU economic governance framework, taking stock of the changed circumstances following the COVID-19 crisis. Eleven key issues for the public debate are identified, all posed as questions.

Question #1 reads: *How can the framework be improved to ensure sustainable public finances in all Member States and to help eliminate existing macroeconomic imbalances and avoid new ones arising?*

From an economic point of view, this is a very interesting question. There is no definition of „sustainable public finances“. I would argue that there cannot be one. The central bank is the monopoly supplier of money, and it executes the government's payments by creating money. ECB president Christine Lagarde confirmed last year that neither the ECB nor the national central banks can run out of euro [1]. So, as long as the Eurosystem is buying up sufficient government bonds within the Pandemic Emergency Purchase Programme (PEPP), Eurozone governments like those of Ireland, Italy and Greece did and cannot run out of money. Since deficit limits are off – the Stability and Growth Pact was deactivated in spring 2020 – there is no punishment for over-spending, however that would be defined. So, there is no limit to the amount of euro a government in the Eurozone can spend today. This seems to be working rather well.

In June this year, Economy Commissioner Paolo Gentiloni said: “Strong common fiscal rules should take into account two problems: First, the reality of our different fiscal situation in public finance, and second, the need that we have to support growth and sustainable growth” [2]. There is broad consensus that the framework does not work. Why would it be so bad when the old rules return? Ireland would return to drafting a budget with a fiscal deficit in mind instead of addressing the environmental crisis, social deficits and other ills. The Irish unemployment rate of October 2021 was 5.2 percent. This means there are plenty of workers available that could be employed to increase green public investment. Returning to the old rules, that would not happen.

Olivier Blanchard called for fiscal standards to replace fiscal rules that are one size fits all. It would be a step forward to revise the Economic Governance Framework so that the public deficit and debt limits are replaced by employment and Green Deal mission targets. If that does not find a majority, then green investment should be exempted from calculations of public deficit and public debt.

Upcoming changes in the global tax code might reduce Irish GDP and hence increase the public deficit and public debt to GDP ratios. It makes no sense to cut government spending in Ireland just because some multinational companies switched their headquarters. The framework should be more flexible to deal with issue like this.

The Economic Governance Framework should reflect that government spending is essential to generate employment and address society's ills. The wage growth of public workers is a key determinant of the rate of inflation. The existing rules have been too tight. The ECB did not hit its inflation target in the last decade because wage growth and government spending were too low. Also, the Eurozone's unemployment rate never fell below seven percent. That is too high. The rules need to be more expansionary and mission-oriented. They also need to be tailored to the specific conditions that the Eurozone countries find themselves in.

Thank you.

[1] <https://www.reuters.com/article/us-ecb-policy-bonds-idUSKBN27Z12S>

[2] <https://www.politico.eu/article/paolo-gentiloni-unchanged-deficit-rules-will-deepen-north-south-divide/>