Course Syllabus

New Era of Fiscal Councils: The Case of Europe

Lecturer: Ľudovít Ódor
Department: Economics, Central European University
Semester: Winter 2016
Course level: MA
Credits: 2 (4 ECTS)
Pre-requisites: Introduction to macroeconomics
Office hours: by appointment (odor@rrz.sk)

Course description

This course will introduce students to the design and implementation of modern fiscal frameworks with a special emphasis on the euro area. The current explosion of the number of independent fiscal institutions (fiscal councils) worldwide reflects an emerging consensus among economists that independent fiscal watchdogs might play an important role in ensuring sustainability and countercyclical of fiscal policy.

Learning outcomes

The primary goal of this course is to emphasize the importance of sound institutions in fiscal policymaking. The Great Recession and the subsequent sovereign debt crisis in Europe have uncovered a number of fault lines in fiscal theory and practice. Students in this course will learn how independent fiscal institutions embedded in a modern fiscal framework might help to address some of the major shortcomings, both in theory and in policy (similarly as independent central banks did in monetary policy in the last 3 decades). Students will also be introduced to the current debate on the future of the euro area.

More detailed content

Fiscal policy: basic concepts and facts
Rethinking fiscal policy after the crisis
What is optimal/prudent fiscal policy?
“Fiscal alcoholism” — deficit bias in fiscal policy
Fiscal rules
Why do we need fiscal councils?
Fiscal councils in Europe (including the new European Fiscal Board)

Barking vs. Biting – effectiveness of independent fiscal institutions

Completing Europe’s Economic and Monetary Union: The future role of fiscal councils

Course Requirements

Final (written) exam 50%
Presence and activity 15%
Essay (by mid-March, max 10 pages) 35%

Course schedule

1. Fiscal policy: basic concepts and facts

What is fiscal policy and how is it related to overall economic policy objectives? Before discussing institutional frameworks, it is important to understand all the basic concepts and most widely used indicators to evaluate fiscal performance.


Optional:

Blejer, M. I. and A. Cheasty (eds), (1993): “How to measure the fiscal deficit”, International Monetary Fund

Fiscal Monitor, International Monetary Fund, bi-annual publication

2. Rethinking fiscal policy after the crisis

The Great Recession has undoubtedly brought a lot of challenges into economic policymaking. Unconventional monetary policy, sovereign debt restructuring, macro-prudential policy or for example secular stagnation are all concepts which were regarded as “exotic” before the crisis. Majority of the profession thought of these as pure theoretical possibilities, without high relevance for developed countries. As a consequence, many policymakers were forced to adopt quick and untested measures. These trial-and-error or learning-by-doing methods were sometimes successful, but not always reached the desired outcomes. What are the main lessons from the crisis (in theory, institutional set up and policy)?
3. What is optimal/prudent fiscal policy?

The two basic requirements for fiscal policy from a macroeconomic perspective are: counter-cyclicality and sustainability. What is optimal fiscal policy from a theoretical point of view? From a practical point of view, do countries have enough fiscal space to deal with unpleasant surprises? How to measure fiscal space and fiscal risks?


Optional:

Debt levels have been high in developed countries even before the crisis. Governments have failed to pursue counter-cyclical and sustainable fiscal policy in good economic times. Why is it hard for politicians to ensure stable debt levels? Can we eliminate this fiscal alcoholism?


Optional:


5. Fiscal rules

One possibility to fight the deficit bias is to introduce fiscal rules. How can we design good fiscal rules? How can we embed those rules in a medium-term budgetary framework? How effective have been fiscal rules in Europe?


Why do we need fiscal councils?

There are several important trade-offs in the design and implementation of fiscal rules. For example, it is hard to foresee all future states of the world, so some flexibility is needed in the definition of rules. On the other hand, too much flexibility will make them unenforceable. Independent fiscal institutions (fiscal councils), if properly designed, might ease many of the trade-offs. How can we maximize synergies between fiscal rules and institutions?


Optional:


7. Fiscal councils in Europe

The number of fiscal councils in Europe has increased dramatically since the crisis. Few of the new councils were home-grown initiatives, however, the vast majority of them was set up due to legal requirements following from the reform of the European fiscal framework. What are good practices when setting up a fiscal council? The European Commission has decided to create a European Fiscal Board in October 2015. What will be the role of the EFB vis-à-vis the Commission and national fiscal councils? What is the role of the Network of EU Independent Fiscal Institutions?


8. Barking vs. Biting – effectiveness of independent fiscal institutions

How can we measure the effectiveness of fiscal councils? What kind of instruments can be developed to influence the behavior of policy makers? Should they have also normative roles?


Optional:

9. Completing Europe’s Economic and Monetary Union: The future role of fiscal councils

Can we improve the European fiscal framework? Do we need a fully-fledged fiscal union? What are the areas where further integration is the most desirable?


Allard, C., Brooks, P.K., Bluedorn, J.C., Bornhorst, F., Christopherson, K., Ohnsorge, F., Pogoshian, T. and an IMF Staff Team (2013): Toward a Fiscal Union for the Euro Area, IMF Staff Discussion Note No. 09/13.
