

BUTI, M. And FRANCO, D.: *Fiscal Policy in Economic and Monetary Union. Theory, Evidence and Institutions*. Cheltenham/UK and Northampton/MA/USA: Edward Elgar Publishing Co., 2005, 320 pages, hardback, ISBN 1-84542-017-9, 69.95 pounds.

The academic and policy controversy over the relevance, procedures and enforcement of fiscal coordination in the European Monetary Union has gained prominence in the first half of the present decade. With four large EU member-states consistently flouting the jointly adopted fiscal framework, weaknesses of enforcement have come to the fore. While Ecofin has in November 2003 practically put SGP out of force, the overruling of the European Court of Justice as of July 2004 of this decision has sustained the Stability and Growth Pact as a legally binding piece of EU legislation. Still, the reinterpretation of the Pact by the Brussels Council of March 2005 opened the door wide for the continuation and even extension of arbitrary fiscal and accounting practices. The new member-states of the EU have since been diverging from, rather than converging to, the entry criteria to the single currency, prompting Commissioner Almunia to utter sceptical assessment of their longer term prospects/save Slovenia/ for joining in any time soon/in: *Die Welt*, 13 July, 2006/.

Why bother then with something that is seen by many as dead letter anyway? Two authors at the forefront of the policy controversy, Marco Buti, Director at the European Commission, and Daniele Franco, Director at the *Banca d'Italia* took the pains of explaining the rationale, the procedures, and other intricacies of functioning of the coordinated European fiscal framework, that is indeed a technical prerequisite for the single currency to operate smoothly in the lack of a political union or fiscal federalism. The authors consciously avoid the apologetic tone in defense of the current arrangements, as no fiscal rule is set in stone. By the same token they are positively open to, and seriously considerate of, suggestions made in the academic literature to improve the Pact and particularly of its implementation.

Perhaps owing to their involvement in the daily routine of international financial decision-making, the authors, unlike their most vocal critics, *tend to see SGP what it actually is*, a supplementary tool to attain peculiar policy objectives, *rather than what it could ideally or potentially be*, if it were transfigured into one of the iron laws/intricate algorithms of advanced textbooks in economic theory. For this reason the tenor of their argument is, that the regulations enshrined in the Pact are though by no means perfect, still these are superior to most academic alternatives. This assessment is based on the observation that, while academic solutions aim at originality and elegance, complexity and brilliance, practical arrangements must be simple in order to be transparent and also to promote accountability of actors. The more sophisticated suggestions to replace the current simple numerical targets with more complex, thus also more sophisticated ones, in use of contemporary econometric modelling, often disregard such pedestrian considerations as timely availability of data- a major constraint in operationalizing any concept based on potential output gap. Complex rules are liable to interpretation and opportunistic reinterpretation. For the same reason the more complex indicators/procedures are in use, the less transparency and democratic accountability can be ensured. Considering all the pluses and minuses they follow the Kopits and Szymanski/1998/ practitioners' rule of thumb and thus their assessment of the SGP is, on balance, favorable. Meanwhile they accept some of those propositions which could make, but not brake, a better

quality and more solid public finance stance, primarily inside the member states. The latter is the crux of the matter, not so much the limitations of a framework built on voluntary compliance. As Buti and Franco rightly stress, the policy attempts to flout SGP are often masquerading in instrumental referemces to *per se* valid, complex and abstract academic concepts and sophisticated arguments, torn out of their context.

The book is therefore a valuable contribution to both the academic and the policy debate, contains a number of useful pieces of information and convincing arguments. However its academic merit is limited by the fact, that it is composed of a dozen of previously available papers which have not been structured into a single monograph. Moreover their vast majority are not even revised for the current volume, but constitute mere reprints from previously published pieces with a slim afterword.

The papers revolve around the economics and politics of European fiscal policy coordination, thus constitute a thematic, if not a structural, unity. The first group includes pieces on medium term fiscal targets, cyclical stabilization, public investment and long term sustainability, which are more technical in nature. The second group includes pieces on the SGP, on fiscal rules and statistics, national budgets and the EU budget, and regular reflections on proposals to „patch up the Pact”. In assessing the suggestions for change the authors, especially in their postscript, tend to lean towards a more favorable interpretation of these policy changes than the present reviewer /Csaba,2007/, while they sustain their succinct differentiation between opportunistic and well meaning, progressive suggestions. The fundamental issue of *independent enforcement* remains, however, open, and the authors rightly emphasize this issue. Meanwhile they seem to overlook the disastrous consequences of bad example and regular rule-braking behavior of incumbents on new members.

All in all, Buti and Franco present a series of interesting analytical information which should be read by as a broad an audience as possible. On the other hand, in academic terms one may always wonder the uses of a book which is a mere collection of previously published pieces. While the choice reflects the taste and priorities of the publisher, this time the thematic coherence and generally high academic standards may, at least in part, compensate for the fact, that many of the chapters were actually co-authored by other individuals, whose name appears only as a footnote, not on the cover. This practice used to be attributed to professorial arrogance, a claim which is obviously no longer valid. Despite my criticisms of various sorts, in sum, the bok is a good buy.

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REFERENCES

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2 /KOPITS,G. And SZYMANSKI,G./1998/: Fiscal Policy Rules. Wshington,D.C.: *IMF Occasional Papers*, no 162.

