AMMINISTRAZIONE IN CAMMINO
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National Parliaments Facing The Economic And Financial Crisis[*]

*di Paola Bonacci***

1. *Introduction*

The European Centre for Parliamentary Research and Documentation (ECPRD) is a network for inter-parliamentary cooperation and information exchange which connects sixty Parliamentary Assemblies of fifty States, along with the European Parliament and the Parliamentary Assembly of the Council of Europe. The seminar brought together 53 experts and officials from 28 Parliaments and other institutions, for an intensive exchange of information and views on the experiences of their respective countries

The themes of the debate over the two days of the seminar - introduced, respectively, by the Vice President of the Italian Senate, Emma Bonino, and the Vice-President of the Chamber of Deputies, Rosy Bindi - were elaborated in a broad and expert way thanks to the highly appreciated contributions of the speakers and the fruitful participation in the debate of the seminar attendees.

This note does not have as its ambition to summarize the contents and the findings of the seminar, which are extremely rich and stimulating, as is evident from the presentations and the documentation already available on the website of the Italian Parliament and on the ECPRD website. Rather, it merely contains reflections on some noteworthy aspects. In any case, it should not be considered as an exhaustive report of the several topics discussed and the numerous issues which emerged during the seminar.

2. *Dealing with Complexity*

The seminar revealed that, more than in the past, Parliaments' law-making activities concerning fiscal policy are strongly constrained from both a legal and economic point of view (by EU law primacy; international treaties; autonomous sub-national legislation, pressure coming from financial markets, etc.). Furthermore, parliamentary budget scrutiny is frequently described as *a highly complex mechanism that presupposes certain economic paradigms* (see Christoph Konrath's presentation).

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[*] Concluding remarks of the seminar on "*The European Economic and Financial Crisis and the Role of Parliaments*", held in Rome on 7 and 8 June 2012, within the ECPRD Area of Interest "*Economic and Budgetary Affairs*".

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In fact, the ever-growing level of complexity also derives from parameters of a technical and scientific nature, to which the above mentioned activities are subject. These features tend to reinforce the role of the Executive.
But, as Prof. Nicola Lupo said, there is the *opportunity for developing new scrutiny and oversight instruments on fiscal policy* to achieve *an enrichment of parliamentary policy-setting and oversight functions*.
Parliaments have the responsibility to deal with this complexity, to turn constraints into opportunities and to require a clear identification of their own sphere of responsibility in order to reaffirm their role in the field of fiscal policy. There is scope to fully exercise this role, as confirmed by the budget and constitutional reforms recently enacted in various countries (*see the presentations delivered by Ms. Joana Figueiredo, Ms. Piccardi, Ms. Ripolles Serrano and Ms. Gutierrez del Castillo, concerning Portugal, Italy and Spain*).
At the same time there is the opportunity to utilize inter-parliamentary cooperation (see art. 13 of the 2012 EU 'Fiscal Compact') to counterbalance the effects of the inter-governmental method, which has heavily influenced the European decision-making process over recent years, bringing about what has sometimes been described as a deficit of democratic legitimacy of fiscal policy decisions.

3. *The Question of Timing*

Timing has been revealed as a matter of the greatest topicality and one of the principal concerns for Parliaments in dealing with the European crisis.
The importance of this question becomes clear when one considers the contrast between the rapidity of financial market action on the one hand, and the slowness of eurozone inter-governmental reaction on the other, discussed by the first speaker at the seminar, Mr. Kjell Torbiörn, who used Aesop's well-known fable about the race between the hare and the tortoise as an illustration.
But is it actually a race? Where is the economic rationale in the behaviour of the two 'competitors'? Financial markets have no interest in destroying the mechanism from which they benefit, as they need the large market in European government bonds which provide a considerable return on the capital invested. On the other hand the 'tortoise' (the EMU) cannot credibly imagine itself fast enough to compete with the 'hare' (the financial markets).
It is evident that this competition is unequal: it is not a sports competition but rather a confrontation that should take place mainly in the political field. Only timely and effective political decisions, taken both at national and super-national level, can restore confidence, by persuading the financial markets about the solidity of the EMU and the effectiveness of its crisis resolution framework at the level of the euro area, as well as about the credibility of fiscal consolidation plans and pro-growth measures implemented at national level.
Under these conditions the tortoise and the hare can again become allies rather than antagonists, which after all is in the truest interest of both sides.

4. *Knowledge as a Precondition for Making Appropriate Choices*

For each National Parliament the challenge of timing also requires the ability to make complex and delicate decisions within very restrictive time constraints, without detriment to the accuracy of the background analyses.

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Fast versus accurate analysis? Various examples show that these objectives are not necessarily in conflict and that satisfactory trade-off solutions may exist.
Replies to the questionnaire, as effectively illustrated by the Italian colleagues Michele Magrini and Marco Caputo, show that a wide and overall grasp of the problems to be faced has invariably been considered a pre-condition for shaping effective policies and for revising previous choices when these prove inadequate. Almost all National Parliaments have undertaken initiatives for gathering accurate information (nearly 70 per cent of the respondent Houses) on the evolution of the crisis. In almost all countries parliamentary staff have played an important role in collecting and analysing the relevant information (*see the presentation of our British colleague Dominic Webb, about the case of the Library of the House of Commons*). In some cases special parliamentary bodies were created to obtain in-depth information: an example was given by Ms. Huybens, namely the creation of a special Committee within the Belgian House of Representatives for the investigation of the circumstances leading to the dismantlement of the Dexia bank.
The experiences of the United Kingdom and Belgium and that of the French Parliament were described in detail by the speakers of the second session (focused on *Timeliness and Knowledge as Pre-conditions for Credible Strategies*). They showed how their respective Parliaments had reviewed their procedures and used their staff and internal structures to meet the new challenges.
The initiatives undertaken demonstrate the firm intention of Parliaments not to be simply *the room for recording the decisions of Government*, in the apt expression of the French speaker, Ms. Aurélie Zoude Le Berre. From this point of view the importance for Parliaments of having full access to data and, more generally, to information on an equal footing with the Executive is evident. The capacity of processing and interpreting data is also crucial: the availability of impartial analysis, conducted by internal technical structures or by independent bodies, is clearly seen by various Parliaments as an absolute necessity.

5. *The Contents of Fiscal Policy Strategies*

The success of fiscal policy strategies rests on several factors, but there is one point that is generally accepted : what is undoubtedly needed in Europe is the guarantee that fiscal consolidation plans are implemented without detriment to the growth prospects of the economies. Countries are urged to adopt economic policies that make budget restraints compatible with balanced growth. That is why "growth-friendly fiscal consolidation strategies" are highly recommended.
From the replies to the questionnaire it emerges that nearly 80 per cent of respondent countries have undertaken fiscal consolidation measures over the reference period (2009-2012). Almost all countries have also introduced structural reforms, mostly targeted at reducing the administrative burden on businesses and more generally creating a favorable environment for them, introducing more effective tax legislation, reforming the welfare system (public health care and pensions) and supporting education, research and training. In addition, important institutional reforms, including those aimed at improving budget processes and domestic fiscal frameworks, have been or are being enacted in numerous countries.
The speakers of the third session of the seminar (whose title was: *How to reconcile Budgetary Consolidation and Support for the Real Economy*) explained the strategies implemented in three different countries: Sweden, Poland, Italy.
An initial reflection which emerges from the comparison of these different experiences is that, *once again*, the question of timing is crucial also in regard to the above aspects.

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Sweden developed its debt reduction programme over a four-year period (1994-1998) following the country's financial crisis of the early 1990's, during which its economy experienced negative growth and very high borrowing costs. The speed of fiscal consolidation was not so fast or its impact so hard as to overly depress demand and growth prospects. In addition, a new framework for sounder public finances was established. This helped to enhance the credibility of Swedish economy. As a result of these policies and of other factors (among them the depreciation of the national currency helping to restore international price competitiveness), the macroeconomic cost of the adjustment turned out not to be overly painful and the country reached the peak phase of the crisis in a relatively safe position. This made it possible for Sweden to largely overcome the crisis by the end of 2010, and to recuperate the GDP losses suffered in 2008 and 2009 (*see Mr. Lindbeck's presentation*).

On the other hand, a country like Italy, which during the current crisis has been, and still is, under severe market pressure, has had no option but to pursue a very rapid deficit reduction to restore market confidence. (The Italian case was illustrated in detail by Mr. Daniele Franco from the Bank of Italy, and by Ms. Claudia Trezzani and Ms. Emilia Marchionni from the Italian Parliament).

In this case time constraints have dramatically reduced the available options concerning not only the amount but also the components (expenditure cuts vs revenue increases) of fiscal adjustment. As a result, in Italy – as in other countries whose sovereign spreads have risen considerably in recent times - the acceleration of fiscal adjustment during a phase of slowdown, and more recently of recession, has negatively affected growth prospects, making the achievement of fiscal targets even more painful.

As a general rule, *highly restrictive budget measures during severe recessions, not only have pro-cyclical macroeconomic effects, but in addition may not lead to the expected results in terms of consolidation of public finances* (see Ms. Marchionni's presentation).

To counteract these effects, important structural reforms and growth-promoting measures not requiring additional spending were enacted in Italy in 2011 and 2012, and other measures are under way. (These reforms are expected to have a positive impact on GDP growth equal to 2,4 points of GDP over a nine-year time period).

A lesson which may be drawn from this experience is that structural reforms aimed at stabilizing public expenditure reduction, improving the business context and boosting economic growth are an essential complement to any adjustment strategy, especially when the objective is a very rapid deficit reduction.

But - as pointed out by the expert of public finance Daniele Franco – *Fiscal aspects are technically simpler; growth is more elusive* (…) *Moreover, growth therapies are more controversial and are necessarily complex and long*.

In fact they require more than only changes in legislation to have full effect.

A final reflection is that it may be helpful to set up an efficient fiscal framework, as Sweden did when the crisis hit and Italy has been doing more recently. Also Poland has implemented budget reforms *before and after financial crisis (see Ms. Marchewka-Bartkowiak's presentation).*

These innovations are conducive to more stable public finances and to reducing the frequency and severity of crises, thus becoming essential tool to Parliaments. This is because, as Daniele Franco said, a*voiding fiscal emergencies is essential for improving the quality of policy-making and ensuring a proper role for national Parliaments.*

6. Monitoring and Assessing Policy Results

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As already indicated, law-making in the field of fiscal policy and parliamentary scrutiny of the budget - given the new constraints and the technical paradigms to be applied – require that Parliaments have a full access to data, instruments and models needed to estimate the economic and financial impact of measures under parliamentary consideration, and to make an evaluation of their likely effects on those concerned.

The financial crisis has partially modified the reference parameters and highlighted new aspects for evaluation (fiscal risks, market scrutiny of macroeconomic imbalances, etc). Moreover, there is an ever greater need to ensure the requirements of civil society (social cohesion indicators, the dimension and sustainability of well-being, etc.).

As shown by Mr. Emanuele Baldacci from the Italian Statistics Office, statistical data, simulation tools and impact evaluation models can make reliable diagnoses about social and economic phenomena available to policy makers. They also offer valid instruments for assessing the results of the policies undertaken.

One important function carried out by a number of Parliaments (*64% positive replies to the questionnaire*) is to monitor and assess the results achieved both via budget corrections and measures to promote economic growth.

In some cases (Belgium, Iceland, Portugal) new special bodies entrusted with this function have been created.

This is an interesting direction in which parliamentary oversight is likely to evolve increasingly in the future. This function requires a wide spectrum of knowledge and technical expertise and the use of appropriate instruments for assessing the impact of measures adopted and for modifying them when they prove ineffective or inadequate.

7. A Long-Term Approach to Financial Stability

The last session of the seminar dealt with the approach of countries (and their Parliaments) to long-term stability policies: parliamentary officials from Austria, Estonia, Portugal and Spain illustrated the experiences of their respective countries in devising and implementing new fiscal rules aimed at pursuing sounder public finances. Furthermore, from the replies to the questionnaire it emerged that nearly 60% of respondents reported that during the reference period (2009-2012) their countries had adopted new fiscal rules, beyond those agreed at eurozone or EU level. A large number of Parliaments have discussed or approved a balanced budget rule, with a few among them even amending their constitution in the process. In other cases, such as Estonia, even though the requirement of the budget balance has not been provided at a legislative level, *strategic development plans and all recent coalition agreements have established budgetary equilibrium as a medium term-objective (see the presentation delivered by Toivo Mängel*).

New rules for controlling the dynamics of public expenditure (61% *positive replies*) have also been enacted. Furthermore, 12 countries in the period under consideration set up independent institutions entrusted with technical tasks relating to fiscal policy. In other countries this innovation is under way. Most of the above bodies have been created to give Parliament and public opinion independent assessments or evaluations on Government fiscal policies and forecasts.

This appears to be in line with Council Directive 2011/85/EU of 8 November 2011 on the requirements for budgetary frameworks of the Member States which makes reference to "*the effective and timely monitoring of compliance with the rules, based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States*".

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These reforms will certainly be of great help in addressing the crisis and in resuming a more stable and balanced economic growth, once the current adverse contingency has been overcome.
Some aspects need to be further clarified. Ms. Chiara Goretti, from the Italian Senate, who coordinated the last session of the seminar, underlined the considerable complexity of the system of rules devised both at a national and a super-national level. Greater simplicity is therefore needed. It would result in a clearer direction for fiscal policy and in easier application of the rules.
In this regard it's also useful to quote the OECD (*Economics Department*, *Working Papers No. 972, 2012)* which recently noted that *"The multiple rules add considerably to the complexity of the system without yielding clear gains. This may make it difficult to achieve political or public "buy-in" around the framework and severely curtails the options to develop fiscal rules at the national level*".
Another question pointed out by Ms. Goretti is whether, in order to guarantee full respect of such rules, it is preferable to rely on political commitment (coalition agreements) or on monitoring institutions and/or enforcement mechanisms of a constitutional nature.
All these aspects and others emerging from the forthcoming developments concerning the interested subject will be examined more in detail during the next ECPRD economic seminar to be held in 2013, whose title could be precisely "*The Recent Evolution of National Fiscal Frameworks*".

8. A Crucial Point: Social and Political Consensus

One further issue remains to be at least indicated: the need for a political and social consensus on measures adopted to face the crisis.
Local authorities, businesses, households and individuals are all asked to share in the sacrifices occasioned by various tax increases, spending cuts, delays in public payments and the reorganization of public services. These sacrifices add to the undesirable effects stemming from the deterioration in economic conditions.
It is the precise task of democratic institutions and, *in primis,* of Parliaments to re-select the priorities and to define the new framework for financial compatibilities, while at the same time preserving social cohesion. Perhaps this will be one of the greatest challenges over the forthcoming years.