

ABSTRACTS

PART I – The EMU and its Fiscal Rules

This paper treats the fiscal rules of the European Economic and Monetary Union. It begins by introducing this union's inception and by discussing its set of fiscal rules – the Stability and Growth Pact, including its reform. The rationale for policy coordination and the need for fiscal rules in a monetary union are then investigated. The Stability and Growth Pact is then assessed from this point of view. The most important part of the paper is devoted to the analysis of whether the Stability and Growth Pact could be substituted by the disciplining effect of the financial markets. Our findings suggest that there is certain interaction between the financial markets and the governments' decisions on the fiscal policies and that this reaction has become stronger after the beginning of the latest financial and economic crisis. However, the institutional setup and market conditions in the European Union are such that this interaction is biased and thus we conclude that the Union needs to have fiscal rules.

JEL Classification: C23, E44, E61, E62, H62, H87

Keywords: European Economic and Monetary Union, Stability and Growth Pact, Financial markets, Fiscal rules, Policy coordination

PART II – The Golden Rule of Public Finance and Productivity of Public Capital

This paper concentrates on the golden rule of public finance. It reviews the main advantages and disadvantages of the potential implementation of this rule in the European Union. Often the question of the productivity of public capital is at the heart of the rule's discussions. As this issue has mostly been investigated for the United States, we try to estimate the productivity of public capital using data on the current member states of the European Union. Working both with data on net capital stocks and gross capital formation, we come to the conclusion that there is a cointegrating relationship between capital and output and that this relationship is in most cases positive. However, as there are also other expenditures classified as current spending that have a positive effect on the output in the long run, we argue that the golden rule should not be introduced in the European Union if the current definition of public capital investment does not change for the rule's purposes.

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Keywords: Golden rule of public finance, European Union, Cointegration, Productivity of capital, Cobb-Douglas production function