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### **Press Release**

The Board of Academic Advisers to the Federal Ministry of Economics and Technology has produced a study on “**Overindebtedness and state insolvency in the European Union**”. The study elaborates policy guidelines for measures to avoid public-sector overindebtedness and to handle state insolvencies in the European Union.

The outbreak of the government debt crisis in early 2010 made it glaringly obvious that a number of European Union countries had got into the habit of apparently resolving budget problems by borrowing more and more money. The packages put together to “rescue” Greece and subsequently Ireland do not relieve the burden on these countries and will have little impact if their governments fail to stick firmly to their tasks of consolidation and correction. It has now become obvious to everyone that the Commission’s monitoring of national budget policy has been largely ineffective. For this reason, we need a reform of institutions at both European and member state level.

The policy recommendations of the Board of Academic Advisers aim to prevent debt crises arising in the first place. They consist of three main elements:

1. As the most important reform, the Board supports the introduction of **insolvency rules for the member states of the EU or the euro group**. The idea is to make it clear to everyone that in future no member state will be able to rely on financial support from its partners to protect it from insolvency. This should encourage governments to put more effort into sound finances, avoiding the path to overindebtedness. It would also provide an important signal to the investors to take seriously the risk of state insolvency, and thus the risk of the loss of part of their claims. In this way, the mere existence of insolvency rules can have a positive impact on the budget policies of the member states.
2. As a second important reform, the Board suggests that the **information available to the general public on the development of budgets in the member states be improved** by Eurostat prominently publishing a quarterly standardised statistical overview of the current and planned borrowing by the member states. In addition to the current budget deficits of the member states, a new deficit standard should show how high these deficits can be allowed to be on a long-term basis if they are to comply

with the debt rules of the Stability and Growth Pact. This sort of “**anchor standard**” can provide greater transparency without any need to amend the EU Treaty.

3. As a third reform step, the Board supports the German Government’s proposal that all member states introduce **national rules to restrict borrowing**, as has happened in Germany and Switzerland. This instrument could make it easier for governments to ensure fiscal discipline at home.

The positive signal provided by insolvency rules will only have an effect if the rescue package is not continued beyond 2013. Should the envisaged new “permanent crisis mechanism” end up being reduced to an assistance fund to rescue states from insolvency, this would mark a policy failure with far-reaching consequences. That would foster the trend observed in the member states towards overindebtedness and would set in motion a transformation of the monetary union into a monetary-cum-transfer union. **There can be limited non-subsidised loan aid in the euro group, but only on the precondition that a member state has agreed with its creditors about their participation in the costs of restructuring.**

The Board regrets the fact that, by refusing the reverse majority rule, those in positions of political responsibility in France and Germany wish to dispense with any enforcement of the threat of sanctions contained in the Stability and Growth Pact for procedures set out in the Treaty. That leaves few ways to encourage budgetary discipline in the member states. However, greater public transparency of budget and debt developments could intensify the control exerted by the critical public.

Overall, therefore, this appears to be a good time to undertake effective reforms. Germany played a substantial role in the establishment of a sound Statute for the European Central Bank, and this has had a positive effect on the Union. Now, the German Government should not hesitate to vigorously advocate thorough fiscal policy reforms in the EU, so that there can be permanent fiscal stability in the eurozone and beyond.