

### CLASS 3

<b>TOPIC</b>	<i>Fiscal Policy</i>
<b>LEARNING CONTENT - DETAILED CHARACTERISTICS</b>	<p>We define the fiscal or budgetary policy following a historical point of view. We point out that allocation function of the government came first, then redistribution functions and finally the consensus on the stabilization policy. So discretionary fiscal policy and automatic stabilizers evolved. Here the eco-fiscal policy also matters – the governments impose energy taxes, environmental taxes, and green taxes. The budget process, budget revenues and budget expenditures are defined and classified. So key issues are discussed: What is taxation about? What are the typologies of tax systems? What are the main trade-offs between redistribution and allocation when taxes are considered? The fiscal balance (including primary and structural budget balance) and public debt and their importance is commented on. Some lessons from history are derived as regards the rise of government as an economic player, the fiscal stimulus impact on economy, sovereign debt, solvency, and debt crises. Public debt sustainability as regards concepts and indicators for assessing it are presented. We consider sustainability and the government’s intertemporal budget constraint as well as debt sustainability and fiscal space. Here debt default, restructuring, and rescheduling are defined and discussed. The public debt sustainability and the effectiveness of fiscal policy is connected through some empirical investigations. The role of traditional and alternative fiscal rules, fiscal institutions, and fiscal discipline is considered. Students should be aware that delicate trade-offs between simplicity and relevance or between clarity and flexibility as regards fiscal policy should be guaranteed.</p>
<b>KEY WORDS</b>	<p>Fiscal policy, budget revenue, budget expenditure, budget balance, primary budget balance, structural budget balance, fiscal stimulus, sovereign debt, solvency, debt crises, effectiveness of fiscal policy, fiscal rules, fiscal institutions, fiscal discipline.</p>
<b>SUGGESTED TOOLS</b>	<p>Power-point presentation Critical thinking and analysis Real-world personal observation Interactive and group discussions A personal study plan</p>

<b>TIPS / METHODOLOGICAL REMARKS</b>  <b>(if applicable)</b>	Learning-by-doing and case studies activities. The focus is on the different views on fiscal policy as regards its objectives, functions, and effects.	
<b>IMPLEMENTATION OF THE CLASSES</b>	<b>STEP 1</b>	We focus on the different roles of the government over various time periods and some historical episodes (the Great Depression, the World War II, European Union experience). We highlight the idea that management of the government budget can stabilize the economy and discuss different points of view on stabilization function of the fiscal policy.
	<b>STEP 2</b>	The methodology of fiscal policy is presented. Some terms are explained – general government, budget, budget revenues and taxes, government expenditure (capital, social and one-off expenditures), fiscal balance, fiscal deficit and surplus, primary and structural balance. Key issues about taxation are discussed. Public (government or also sovereign) debt is defined, and public debt dynamics is discussed. See work card 1.
	<b>STEP 3</b>	We discuss the trends over fiscal management following the increase in public spending and the reasons behind this process; the fiscal policy dimensions in practice based on the American, German, and Japanese experience; the restructuring and rescheduling of the sovereign debt following the Greek debt saga in the 2010s.
	<b>STEP 4</b>	We note that there is no universal criterion for assessing public debt sustainability. The key to defining sustainability is to allow for a government to meet its intertemporal budget constraint. We also consider that the sustainability of public finance can be assessed by tax gap. So medium-run and long-run fiscal sustainability indicators evolve. Fiscal space and sustainability are connected to the effectiveness of fiscal policy.
	<b>STEP 5</b>	Fiscal rules and institutions are presented. We track the evolution of fiscal framework and the debate over fiscal discretion and rules. Some criteria for choosing fiscal rules and their traditional and alternative features are

		discussed. We comment on the role of fiscal institutions, their advantages and disadvantages, and some empirical evidence on effectiveness of fiscal institutions. See work card 2.
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## ADDITIONAL MATERIAL 1 (WORK CARD, PICTURE, RECORDING, QUIZZ, PRESENTATION, ASSIGNMENTS)

### WORK CARD 1 – FISCAL POLICY

Find the most accurate definition for the above terms:

Government expenditures	Indirect taxes
Primary expenditures	Countercyclical fiscal policy
Subsidies	Direct taxes
Fiscal space	Budget
Public debt	Customs Duty

- \_\_\_\_\_ : a document that specifies the origin and volume of both income and intended spending over a certain time horizon (usually a year)
- \_\_\_\_\_ : health, education and social services provided by the government to households, and the government expenditure incurred in maintaining the public service, defence and security and carrying out fundamental research
- \_\_\_\_\_ : taxes on household income, corporate profits, and social contributions
- \_\_\_\_\_ : a tariff or tax imposed on goods when transported across international borders
- \_\_\_\_\_ : value added tax, customs duties and excise duties
- \_\_\_\_\_ : funds made available free of charge by the government to enterprises to promote certain productive activities
- \_\_\_\_\_ : discretionary fiscal policy of an expansionary or contractionary nature
- \_\_\_\_\_ : all spending except interest on public debt
- \_\_\_\_\_ : the flexibility of a government in its spending choices, and, more generally, to the financial well-being of a government
- \_\_\_\_\_ : amounts owed by the different levels of government and used to finance public deficits

**ADDITIONAL MATERIAL 2 (WORK CARD, PICTURE, RECORDING, QUIZ, PRESENTATION, ASSIGNMENTS)**

**WORK CARD 2 – FISCAL POLICY**

Read The Network of EU Independent Fiscal Institutions Working Paper *Do institutional aspects shape the effectiveness of independent fiscal institutions?* which is available on the following link:

<https://www.euifis.eu/publications/36>



What do you think about the effectiveness of independent fiscal institutions in the EU? What factors determine their effectiveness and to what extent can they be changed? What is your opinion on the effectiveness of fiscal institutions in your country? What additional factors can be derived to assess the effectiveness of government institutions?