

Contents

| | |
|---|----|
| Introduction and Overview | 9 |
| Fiscal Restrictions and Monetary Union: Rationales, Repercussions, Reforms | 13 |
| <i>Barry Eichengreen and Jürgen von Hagen</i> | |
| I. Introduction | 13 |
| II. Stage II: Fiscal Restraints as a Filter | 15 |
| 1. <i>A Simulation Model</i> | 15 |
| 2. <i>Simulation Results</i> | 16 |
| III. Stage III: Fiscal Restraints and Monetary Union | 21 |
| 1. <i>The Origin of Borrowing Restrictions in the United States</i> | 21 |
| 2. <i>Borrowing Restrictions in Australia</i> | 23 |
| 3. <i>Evidence from Other Monetary Unions</i> | 24 |
| 4. <i>Bail-Out Risk and the ECB</i> | 25 |
| IV. Preventing Excessive Deficits: An Institutional Approach | 27 |
| V. Conclusion | 30 |
| Comment by <i>Paul De Grauwe</i> | 34 |
| Comment by <i>Alexander Italianer</i> | 37 |
| Comment by <i>Friedrich Schneider</i> | 42 |
| The Maastricht Fiscal Criteria: Required but Ineffective? | 45 |
| <i>Robert Holzmann, Yves Hervé and Roland Demmel</i> | |
| I. Introduction | 45 |
| II. Enhanced Incentives for and Likely Externalities of a Looser Fiscal Policy in EMU | 46 |
| 1. <i>Modifications in the Economic Framework Likely to be Brought about by EMU</i> | 47 |
| 2. <i>Incentives for a Looser Fiscal Policy in EMU</i> | 49 |
| 3. <i>Negative Externalities Triggered by Unsound Fiscal Policies in EMU</i> | 52 |

| | | |
|------|--|---------|
| III. | Can the Fiscal Provisions of Maastricht Prevent Unsound Fiscal Policy in EMU? | 56 |
| | 1. <i>Discrimination Capacity</i> | 56 |
| | 2. <i>Effective Sanctions</i> | 64 |
| IV. | A Proposal of Supplementary Criteria and Specified Sanctions | 66 |
| | 1. <i>Supplementary Fiscal Criteria</i> | 67 |
| | 2. <i>Specified Sanctions</i> | 68 |
| V. | Concluding Remarks | 72 |
| | Comment by <i>Giancarlo Corsetti</i> | 77 |
| | Comment by <i>Otmar Issing</i> | 81 |
| | Tax Competition, Tax Coordination and Tax Harmonisation: The Effects of EMU | 83 |
| | <i>Bernd Genser and Andreas Haufler</i> | |
| I. | Introduction | 83 |
| II. | Commodity Taxation | 85 |
| | 1. <i>Cross-border Shopping under the Current System</i> | 85 |
| | 2. <i>Switching to an Origin-based VAT?</i> | 91 |
| III. | Capital Taxation | 99 |
| | 1. <i>The Case for a Coordinated Source Tax on Portfolio Income</i> | 101 |
| | 2. <i>Cash-flow Taxation vs. Minimum Corporate Tax Rates</i> | 104 |
| IV. | Conclusions | 107 |
| | Comment by <i>A. L. Bovenberg</i> | 115 |
| | Comment by <i>Sjibren Cnossen</i> | 120 |
| | Comment by <i>Stephen Smith</i> | 124 |
| | Social Policy in a Common Market: Labour Market, Social Arbitrage, Public Finance | 129 |
| | <i>Friedrich Breyer and Martin Kolmar</i> | |
| I. | Introduction | 129 |
| II. | The Conception of Social Policy in the European Union | 130 |

| | | |
|------|---|-----|
| III. | Market Integration and National Welfare Programs | 132 |
| | 1. <i>Main Determinants</i> | 134 |
| | 2. <i>Extension of Effective Mobility</i> | 140 |
| | 3. <i>Policy Implications</i> | 142 |
| IV. | Market Integration and Social Insurance without Intergenerational Transfers | 142 |
| | 1. <i>Theory</i> | 142 |
| | 2. <i>Policy Implications</i> | 144 |
| V. | Social Insurance with Intergenerational Transfers | 145 |
| | 1. <i>Theory</i> | 145 |
| | 2. <i>Policy Implications</i> | 147 |
| VI. | Conclusions | 148 |
| | Comment by <i>John P. Martin</i> | 153 |
| | Comment by <i>Pierre Pestieau</i> | 156 |
| | Comment by <i>Bernd Raffelhüschen</i> | 159 |
| | | |
| | The Distributive Implications of Economic and Monetary Union | 163 |
| | <i>David G. Mayes</i> | |
| I. | Introduction | 163 |
| II. | The Context of EMU | 163 |
| | 1. <i>The Transition to Stage 3</i> | 164 |
| | 2. <i>Seigniorage</i> | 168 |
| | 3. <i>The Wider Context</i> | 169 |
| | 4. <i>Cohesion</i> | 170 |
| | 5. <i>The Development of Cohesion Policy</i> | 172 |
| | 6. <i>The Outlook for Stage 3</i> | 173 |
| III. | The Operation of Macroeconomic Policy under EMU | 174 |
| | 1. <i>The Redistributive Effect of Monetary Policy</i> | 174 |
| | 2. <i>The Impact of Interest Rates</i> | 176 |
| | 3. <i>The Impact of the Exchange Rate</i> | 177 |
| | 4. <i>The Impact on Households</i> | 178 |
| IV. | Tackling the Problems | 178 |
| | 1. <i>Coping with the Problems of Transition</i> | 179 |
| | 2. <i>Developing Expenditure Programmes</i> | 179 |

| | | |
|------|--|-----|
| 3. | <i>Widening the Scope to Revenue Transfers</i> | 180 |
| 4. | <i>Tackling the Budget as a Whole</i> | 181 |
| V. | Concluding Remarks | 183 |
| | Comment by <i>Fritz Franzmeyer</i> | 187 |
| | Comment by <i>Bruno S. Frey</i> | 191 |
| | | |
| | Omne Agens Agendo Perficitur: The Economic Meaning of Subsidiarity | 195 |
| | <i>Lars P. Feld and Gebhard Kirchgässner</i> | |
| I. | Introduction | 195 |
| II. | The Principle of Subsidiarity | 197 |
| III. | The Theory of Federalism | 199 |
| | 1. <i>Checks and Balances in a Constitutional View</i> | 199 |
| | 2. <i>Fundamentals of Fiscal Federalism</i> | 203 |
| IV. | Empirical Relevance of Fiscal Federalism and Direct Democracy | 207 |
| | 1. <i>Allocative and Distributive Consequences of Tax Competition: The Case of Switzerland</i> | 207 |
| | 2. <i>Fiscal Decentralisation and the Taming of Leviathan</i> | 210 |
| | 3. <i>Direct-Democracy and the Taming of Leviathan</i> | 212 |
| | 4. <i>Fiscal Federalism and the Economic Performance of Nations</i> | 214 |
| V. | Tasks and Financing Means of the European Union: Some Suggestions | 215 |
| | 1. <i>European Policy Domains</i> | 215 |
| | 2. <i>Financing European Activities</i> | 217 |
| VI. | Concluding Remarks | 218 |
| | Comment by <i>Charles B. Blankart</i> | 227 |
| | Comment by <i>Manfred Teutemann</i> | 231 |
| | Comment by <i>Hannelore Weck-Hannemann</i> | 235 |
| | | |
| | List of Contributors | 237 |