

Abstract

Fiscal rules in a monetary union should (1) be simple; (2) ensure the solvency of the state; (3) relate to the consolidated general government and central bank; (4) be neutral as regards the size of the public sector; (5) avoid pro-cyclical behaviour of the fiscal policy instruments; (6) make sense also in the long run; (7) allow for important differences in economic structure and initial conditions; (8) aggregate into behaviour that makes sense at the level of the union as a whole; (9) be credible and (10) be enforced impartially and consistently. The paper reviews the rules of the Stability and Growth Pact, the UK's golden rule and sustainable investment rule and Buiter and Grafe's permanent balance rule from the perspective of how well they meet these 10 criteria.