# Good Rules and Regulations Enhance Good Governance

- The challenge today as always is to find the appropriate mix between fiscal policy, structural reforms and broad monetary policy.

- The origin of the crisis had to do with inadequate financial market regulation and monetary policy.

- “Finanticial regulation has played a central role in the crisis. It contributed to the amplification effects that transformed the decrease in U.S. housing prices into a major world economic crisis. The limited perimeter of regulation gave incentives for banks to create off-balance-sheet entities to avoid some prudential rules and increase leverage. Regulatory arbitrage allowed financial institutions such as AIG to play by different rules from other financial intermediaries. Once the crisis started, rules aimed at guaranteeing the soundness of individual institutions worked against the stability of the system. Mark-to-market rules, when coupled with constant regulatory capital ratios, forced financial institutions to take dramatic measures to reduce their balance sheets, exacerbating fire sales and deleveraging." .......... *IMF dixit.*

- Fiscal policy can provide stimulus for a while but can not substitute or compensate inappropriate monetary policy and financial market regulation.

- To restore credit growth is critical to bring the EU economy back on track.

- The crisis has shown how important for member countries is to have fiscal space (low level of debt and budget position according to cycle situation), as well as efficient political process to enact and implementing fiscal measures when facing drastic changes in economic activity.
- In assessing bugetary imbalances the quality of expenses is of critical importance.

- The crisis has demonstrated that EU was not properly equipped to face successfully difficult times.

- Timing is a critical component in economic policy. Non appropriate governance starts by reacting late to events.

- Despite the insertion in the EMU Treaty of appropriate rules and guidances to strengthen fiscal policy coordination, member countries have not create neither the mood nor the precedents to make this tool credible.

- The answer to the crisis is to deep in the union concept:

- More and more harmonized financial system regulation.
- Better interpretation of the ECB main objective.
- To strentheng fiscal policy at EU level. It calls for:

- Enacting taxes regulated and collected by the EU, for instance:

  -Tax on financial transactions

  -Allowing to increase the size of the EU budget geared to strengthening regional policies and to implement bold public investment programs to offset economic slowdown.

  - Abolishing the prohibition to issue debt by the EU when the situation calls for.