tition could seriously undermine the capacity of member states to conduct independent fiscal policy.

European Structural Funds. The EU budget performs some interregional redistribution, mainly through its structural funds, whereas interpersonal redistribution and social security are left to member states.

As long as mobility, solidarity, and central intervention remain limited within the European Union, redistribution policies appear sufficient, the authors observe. But in the medium to long run, as European integration proceeds, demands for a larger central redistribution function—including social security—may emerge and put pressure on the limited size of the structural funds.

An expanded central redistribution function may face strong resistance, however, at least in the short term, especially from member states reluctant to finance large and permanent transfers to specific countries or regions.

Should Macroeconomic Stabilization Be Centralized?

In a federation, the federal budget has an automatic stabilizing effect in the event of shocks affecting local economies. In the case of a local recession, federal taxes paid by local residents decrease, and federal transfers increase, thus having a countercyclical effect. Some observers have suggested that a separate EMU budget would be necessary to achieve the same effects in case of asymmetric shocks. Others have pointed out that local fiscal policies are sufficiently well equipped to handle these shocks by running temporary deficits and surpluses.

To the extent that member states maintain balanced budgets over the medium term, there appears to be some agreement that the Stability and Growth Pact would allow automatic stabilizers to operate, the authors note. In addition, economic and monetary integration should increase the positive correlation of output fluctuations among EMU members and therefore reduce the likelihood and importance of asymmetric shocks. But to the extent that new member states will enter EMU at the upper limit of the Stability and Growth Pact fiscal criterion, there may be little room initially for the normal operation of automatic stabilizers, which could lead to weaker stabilization and greater output volatility than has been the historical norm. This outcome could be aggravated as member states see the range of discretionary policy tools—notably tax policy—reduced by EU integration, and since the magnitude of automatic stabilizers is likely to have diminished in the past few years—a somewhat neglected issue, according to the authors. Under such circumstances, there may be calls for stabilization through the EU budget, which could result in large and lasting transfers.

Role for Central Fiscal Authority?

In the current EU fiscal framework, coordination relies exclusively on exchange of information, publicity, and peer pressure. No EU institutional body is equipped with the necessary instruments to handle policy coordination, while the imposition of sanctions against noncompliant member states provided for in the Stability and Growth Pact does not substitute for the lack of appropriate policy coordination.

The European Central Bank has been vested with a high degree of independence, which is essential to the credibility of the EMU. However, credibility risks being undermined if the framework designed to coordinate fiscal policies is perceived to be weak. The ECOFIN Council (comprising economic or finance ministers of the European Union) coordinates fiscal policies for all EU member states and not strictly those of the euro area. In addition, the ECOFIN Council does not have the necessary instruments to enforce its decisions on coordination. The Stability and Growth Pact, although it provides a clear and strict framework for fiscal convergence and stability, sets no binding rules for member states that stay within these limits. In addition, there is some skepticism about the ability and willingness of EU authorities to strictly enforce the sanctions for noncompliance envisaged by the Stability and Growth Pact. Imposing sanctions and fines on a country facing genuine economic difficulties, which would have already been penalized by market mechanisms through higher

Camdessus Offers Condolences on Death of King Hussein

IMF Managing Director Michel Camdessus expressed his formal condolences on the death of the King of Jordan. Following is the text of news brief 99/6, issued on February 7.

I learned with deep sadness of the passing away of H.M. King Hussein of Jordan. On behalf of the IMF and myself, I have conveyed our sincere condolences to the royal family and the people of Jordan.

Over many years, the Kingdom of Jordan and the IMF have developed a very close and productive relationship. We will take every possible step to maintain and strengthen it. It is in this spirit that the IMF staff mission currently visiting Amman will remain at the disposal of the government to complete the negotiation of a three-year Extended Fund Facility and contribute to the IMF's role in catalyzing international support for Jordan in the present tragic circumstances.

H.M. King Hussein of Jordan