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The
G7 Research Group
at the Munk School of Global Affairs at Trinity College in the University of Toronto
presents the

2015 Schloss Elmau G7 Summit Final Compliance Report

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"We have meanwhile set up a process and there are also independent institutions monitoring which objectives of our G7 meetings we actually achieve. When it comes to these goals we have a compliance rate of about 80%, according to the University of Toronto. Germany, with its 87%, comes off pretty well. That means that next year too, under the Japanese G7 presidency, we are going to check where we stand in comparison to what we have discussed with each other now. So a lot of what we have resolved to do here together is something that we are going to have to work very hard at over the next few months. But I think that it has become apparent that we, as the G7, want to assume responsibility far beyond the prosperity in our own countries. That's why today's outreach meetings, that is the meetings with our guests, were also of great importance."

Chancellor Angela Merkel, Schloss Elmau, 8 June 2015

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2. Macroeconomic Policy: Fiscal Flexibility

"We will continue to implement our fiscal strategies flexibly to take into account near-term economic conditions, so as to support growth and job creation, while putting debt as a share of GDP on a sustainable path."

Elmau G7 Summit Declaration

Assessment

Country	Lack of Compliance	Work in Progress	Full Compliance
Canada			+1
France		0	
Germany			+1
Italy		0	
Japan			+1
United Kingdom			+1
United States			+1
European Union			+1
Average Score	+0.75		

Background

Fiscal flexibility is the notion that fiscal policy should become more flexible to respond better to developments in the economy as they arise.[51] This flexibility can be accomplished in several ways. Most commonly, it involves applying the concept of central bank independence widely accepted in monetary policy to fiscal policy by having tax rates be set by a group of unelected officials.

When fiscal policy is left in the hands of politicians, election time horizons can influence tax cutting that, while attractive in the short term, creates problems for the economy later on. Changes to fiscal policy also take significant time when left to elected officials, and thus tax cuts sometimes respond too late in a slowdown and fail to remedy the impact of a recession. Many experts have suggested that fiscal flexibility via independent-agency management of fiscal policy should be pursued. Targeted job creation policies may also help rehabilitate fiscal policies.[52] The concept of fiscal flexibility has thus far been explored in several G7 members, including Canada and the European Union.[53,54]

Commitment Features

This commitment largely consists of three parts:

1. Continuing to implement fiscal strategies flexibly for purposes of catering to short-term horizons;
2. Focusing fiscal flexibility on supporting growth and job creation, specifically; and
3. Planning ahead to make debt as a share of GDP sustainable

The commitment first suggests that members "continue to implement" flexible fiscal strategies. This implies that certain G7 members may already be exploring fiscal flexibility. It is thus important to ensure that this year's compliance is assessed on the basis of measures implemented after the 2015 Elmau G7 Summit Declaration, and not before.

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[51] Fiscal flexibility, The Economist, 25 November 1999, Access date: 18 January 2016. http://www.economist.com/node/262753
[52] The Long and Short of Fiscal Policy, The Wall Street Journal, 21 May 2012, Access date: 18 January 2016. http://www.wsj.com/articles/SB10001424052702303360504577408490648029470
[53] Federal Liberals look for fiscal flexibility, The Chronicle Herald, 13 December 2015, Access date: 18 January 2016. http://thechronicleherald.ca/canada/1327391-federal-liberals-look-for-fiscal-flexibility
[54] The EU new fiscal flexibility guidelines: An assessment, CEPR's Policy Portal, 27 January 2015, Access date: 18 January 2016. http://www.voxeu.org/article/eu-new-fiscal-flexibility-guidelines-assessment

While fiscal flexibility is the primary goal of this commitment, focusing fiscal flexibility on supporting growth and job creation as well as debt as a share of gross domestic product (GDP) sustainability is a secondary goal. Thus, policies that speak specifically to growth, job creation, and debt as a share of GDP sustainability may be more comprehensive and targeted in the long term.

Scoring Guidelines

−1	Member does not implement fiscal strategies flexibly OR integrate fiscal flexibility, growth, job creation, and debt as a share of GDP into future plans
0	Member makes some progress towards implementing fiscal strategies flexibly AND/OR integrating fiscal flexibility, growth, job creation, and debt as a share of GDP into future plans
+1	Member well on the way to implementing fiscal strategies flexibly AND/OR integrating fiscal flexibility, growth, job creation, and debt as a share of GDP into future plans

Canada: +1

Canada has fully complied with the commitment to implement flexible fiscal strategies.

Canada's fiscal policy makers have focused on increased infrastructure spending in order to promote economic growth and job creation while maintaining a commitment to a declining ratio of gross domestic product (GDP) to debt in the long run.

On 15 September 2015, it was announced that Canada ran a budget surplus of CAD1.9 billion, despite a decline in government revenues stemming from falling oil prices.[55] This was partially achieved by reducing the government's contingency fund from a projected CAD3 billion to CAD1 billion. Additionally, CAD6.3 billion was raised through the sale of government assets.[56]

In the Update of Economic and Fiscal Projections, Minister of Finance Bill Morneau renewed the Trudeau government's pledge to balance the budget by 2019-2020 and to maintain a declining debt-to-GDP ratio throughout their mandate.[57] The debt-to-GDP ratio is expected to fall from 30 per cent to 27 per cent by 2020. The renewal of this pledge occurred despite downgraded growth projections, which are estimated to reduce the budgetary balance by CAD6 billion per year.[3]

On 7 December 2015, Morneau pledged "transformative investments in infrastructure and a new plan for a strong middle class."[58] As part of this promise, Morneau proposed a reduction in the tax rate from 22 per cent to 20.5 per cent for individuals making between CAD45,282 and CAD90,563 in yearly income. This tax cut would be funded by the creation of a 33 per cent tax bracket for individuals making upwards of CAD200,000 a year. Additionally, the cap on tax-free savings accounts will be reduced from CAD10 thousand to CAD5,500.[59]

Moreover, Canada has vowed to increase its infrastructure spending by CAD5 billion over the next two years with the goal of spending an additional CAD60 billion on infrastructure within the next 10 years.[60] This expenditure has been earmarked for projects with long-term benefits, including public transit, affordable

[55] How to react to Canada's surprising budget surplus, The Globe and Mail (Toronto) 14 September 2015. Access Date: 3 February 2016. http://www.theglobeandmail.com/opinion/editorials/how-to-react-to-canadas-surprising-budget-surplus/article26361999/.

[56] Federal budget 2015: How Joe Oliver balanced the books, CBC News (Ottawa) 21 April 2015. Access Date: 3 February 2016. http://www.cbc.ca/news/business/federal-budget-2015-how-joe-oliver-balanced-the-books-1.3040856.

[57] Government of Canada Releases Economic and Fiscal Update, Department of Finance Canada 20 November 2015. Access Date: 3 February 2016. http://www.fin.gc.ca/n15/15-084-eng.asp.

[58] Speech on Measures to Strengthen the Middle Class, Department of Finance Canada 7 December 2015. Access Date: 3 February 2016. http://www.fin.gc.ca/n15/15-086_1-eng.asp.

[59] Backgrounder: Middle Class Tax Cut, Department of Finance Canada 7 December 2015. Access Date: 3 February 2016. http://www.fin.gc.ca/n15/data/15-086_1-eng.asp.

[60] Trudeau's government set to speed up, double down on infrastructure, CBC News (Ottawa) 14 January 2016. Access Date: 3 February 2016. http://www.cbc.ca/news/politics/infrastructure-acceleration-sohi-1.3403450.

housing and childcare facilities.[6] In order to finance this plan, Canada plans to run budgetary deficits of less than CAD10 billion over the next three years before returning to a balanced budget in 2019-2020.[61] Despite downgraded growth projections for the Canadian economy, Prime Minister Justin Trudeau reiterated this pledge on 13 January.[6]

Canada plans to invest CAD200 million in order to "support innovation and clean technologies in the forestry, fisheries, mining, energy, and agricultural sectors."[62] Moreover, the Canada Green Investment Bond will be established to fund renewable energy projects across the country.

As part of his plan to expand skills training, Canadian Prime Minister Justin Trudeau has announced a CAD750 million increase in federal funding for training programs.[63] Included in this policy pledge is a CAD500 million expansion in the Labour Market Development Agreements made between the federal government and Canada's provinces and territories.

Canada plans to review departmental spending and close tax loopholes in order to return to a CAD1 billion budget surplus in the 2019-2020 fiscal year.[64] This budget forecasting was projected without assuming that governmental infrastructure investment would have any positive impact on GDP growth, but has been called into question due to rapidly falling GDP growth projections.

Canada has thus been awarded a score of +1 for tailoring its fiscal policy towards the goals of economic growth, job creation and a declining GDP-to-debt ratio.

Anthony Piruzza

France: 0

France has partially complied with its commitment to implement flexible fiscal strategies.

France has not had a budget surplus since the 1970s, and continues to run a budget deficit below the 3 per cent of GDP limit, imposed by the EU.[65, 66]

The unemployment rate in France is over ten per cent—an all-time low for France. On 14 September 2015, French President François Hollande announced labour reforms that seek to abate France's complex Labor Code. Simplifying the 3000-page Labour Code is aimed to encourage company-level negotiations between employers and unions insofar as to increase hiring flexibility and promote job creation.[67] In this regard, Director General of Labour Jean-Denis Combrexelle proposed increasing the scope of collective bargaining by 2020 in his report "Collective Bargaining, Jobs, and Employment." Pay rate, working hours, and other work conditions can be negotiated between employers and employees.[68]

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[61] Liberal fiscal plan outlines CAD146.5B in spending, tax cuts over next 4 years, CBC News (Ottawa) 26 September 2016. Access Date: 3 February 2016. http://www.cbc.ca/news/politics/canada-election-2015-liberal-fiscal-plan-1.3245239.
[62] A New Plan for Canada's Environment and Economy, Liberal Party of Canada. Access Date: 3 February 2016. https://www.liberal.ca/files/2015/08/A-new-plan-for-Canadas-environment-and-economy.pdf.
[63] Job and Skills Training for Canadians, Liberal Party of Canada. Access Date: 3 February 2016. https://www.liberal.ca/files/2015/09/Job-and-skills-training-for-Canadians.pdf.
[64] The Liberal Fiscal Plan and Costing, Liberal Party of Canada. Access Date: 3 February 2016. https://www.liberal.ca/files/2015/09/The-Liberal-fiscal-plan-and-costing.pdf.
[65] EU fiscal policy reflects broader tensions, Global Risk Insights 13 January 2015. Access Date: 3 February 2016. http://globalriskinsights.com/2015/11/eu-fiscal-policy-reflects-broader-tensions/
[66] EU signals flexibility on budgets, aiding France, Italy, Reuters (Brussels) 13 January 2015. Access Date: 3 February 2016. http://www.reuters.com/article/us-eu-budgets-flexibility-idUSKBN0KM1NQ20150113
[67] Hollande plans labour law reform as he cements shift to centre, Financial Times (Paris) 14 September 2015. Access Date: 3 February 2016. http://www.ft.com/intl/cms/s/0/c2f1ac2e-570a-11e5-a28b-50226830d644.html
[68] Collective Bargaining to Drive French Labour Law Reform, France Stratégie (Paris) 25 September 2015. Access Date: 3 February 2016. http://blog.en.strategie.gouv.fr/wp-content/uploads/2015/09/Collective_Bargaining_web.pdf

On 30 September 2015, Secretary of State for the Budget Christian Eckert released the Draft Budgetary Plan for 2016 that outlines France's fiscal plans to lower taxes and business contributions.[69] Eckert explained the necessity of the expansionary fiscal policy to increase disposable income of consumers and boost the French economy.

On 19 October 2015, President Hollande held a workers-and-bosses conference. Employers and employees reached an agreement, in principle, to extend the retirement age by one year to age 63. An extended retirement age will require employees to pay one more year of contributions before they are eligible to receive pensions.[70] This agreement, if passed, is expected to save EUR6.1 billion by 2020.

Following the Paris attacks, President Hollande announced increased security and national defense expenditures on 16 November, despite the budget deficit that could be facing fines from EU.[71] After the annual EU-wide budget review, the European Commission agreed to loosen guidelines, increase fiscal flexibility, and permit new spending for France in light of the recent terrorist threat.[72]

On 18 January 2016, President Hollande implemented 500,000 more vocational training programs, in addition to the 150,000 that were announced in October 2015. Moreover, President Hollande presented new efforts to boost apprenticeships and government subsidies to small to mid-sized companies. Companies with less than 250 employees will be subsidized EUR2,000 for hiring youths and jobless workers full-time for a minimum of six months.[73] The primary objective of this two billion euro plan is to decrease the youth unemployment rate, which is stagnant at 25.7 per cent and among the highest in Europe.[74]

France does not have independent parties managing its fiscal policies and has not yet made its debt a sustainable share of gross domestic product. However, the French government has implemented some measures to increase fiscal flexibility and promote job creation. Therefore, France is awarded a compliance score of 0.

Meng Fei (Cathy) Li

Germany: +1

Germany has continued to demonstrate fiscal flexibility that reflects short-term events and promotes growth and job creation, particularly in the middle of a worldwide refugee crisis. As the highly unpredictable crisis unfolds, Germany is aggressively pursuing changes in fiscal responsibility to reflect changes in its economy.

In response to the flow of displaced persons, Germany has risen to the challenge of combatting its labour shortage in its aging workforce[75] with a series of policies that allowed them to receive 1 million refugees by the end of 2015, four times greater than the 2014 figure.[76]

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[69] Draft Budgetary plan for 2016, Agence France Trésor 2015. Access Date: 2 February 2016. http://www.aft.gouv.fr/documents/per cent7BC3BAF1F0-F068-4305-821D-B8B2BF4F9AF6 per cent7D/publication/attachments/24496.pdf

[70] Behind the strife, Hollande grinds out French reforms, Reuters (Paris) 19 October 2015. Access Date: 3 February 2016. http://uk.reuters.com/article/uk-france-politics-hollande-idUKKCN0SE0AX20151020

[71] EU fiscal policy reflects broader tensions, Global Risk Insights 13 January 2015. Access Date: 3 February 2016. http://globalriskinsights.com/2015/11/eu-fiscal-policy-reflects-broader-tensions/

[72] France slams European Commission on budget deficit warning, Financial times (Brussels) 17 November 2015. Access Date: 3 February 2016. http://www.ft.com/intl/cms/s/0/8fdfef2a-8d2f-11e5-a549-b89a1dfede9b.html#axzz3zAgxZJfc

[73] Hollande outlines jobs plan to tackle economic 'emergency', Financial Times (Paris) 18 January 2016. Access Date: 3 February 2016. http://www.ft.com/intl/cms/s/0/5d48678a-bdbe-11e5-9fdb-87b8d15baec2.html?siteedition=intl

[74] François Hollande Aims 2 Billion Euro Plan at France's Economic 'Emergency', New York Times 18 January 2016. Access Date: 3 February 2016. http://www.nytimes.com/2016/01/19/business/international/hollande-aims-2-billion-plan-at-frances-high-unemployment.html

[75] Tapping refugees to combat Germany's labor shortage, Deutsche Welle 9 February 2015. Access date: 4 February 2016. http://dw.com/p/1GPk5.

[76] Migrant crisis: Migration to Europe explained in graphics, BBC News 28 January 2016. Access date: 4 February 2016. http://www.bbc.com/news/world-europe-34131911.

After a larger-than-expected budget surplus of EUR12.1 billion in 2015 of more than twice the expected sum, Germany plans to use much of the money to accommodate and integrate refugees.[77] Under German law, funds unspent at the end of the year should be used to repay debt, but Chancellor Angela Merkel's ruling coalition agreed last year to funnel all extra money from 2015 into a reserve to pay for refugee-related costs.

In its 2016 national fiscal policy, Germany has pledged EUR670 per refugee per month, as well as an additional EUR8 billion in additional federal spending.[78] Germany's 16 federal states plan to spend around a combined total of EUR17 billion on refugees this year.[4] In addition, the government has indicated willingness to increase spending later in the year as budgets were based on earlier and lower estimates of 800,000 arrivals in 2015. Independent economists predict a burden of around 1/2 a percentage point of GDP for 2016.[79]

The DIW economic institute predicts that state spending on refugees will increase to 17 billion in 2017, boosting private consumption as well as the construction sector.[80] However, recent forecasts from the Cologne Institute for Economic Research predict a refugee cost of a much costlier EUR50 billion in the 2016-17 federal budget, and say expenses could reach as high as EUR22.6 billion in 2017; with these predictions, Germany will be unable to form a balanced federal budget without new borrowings in 2017.[81]

Independent economists advise that the effect of the refugee influx on state finances depends on how quickly new arrivals are integrated into the labour market. In response, Labour Minister Andrea Nahles announced in late January of 2016 that refugees who do not attempt integrate into German society could see their welfare payments reduced.[82] Such attempts would be "participation in language courses and, in addition, adhering to the basic rules of our coexistence," Nahles said.

On 16 January 2016, German Finance Minster Wolfgang Schäuble proposed a European Union–wide tax on petrol to help finance refugees and strengthen the bloc's borders.[83] Although many have criticized the proposal, the suggestion shows the country's open mindedness and flexibility to new fiscal policies that solve current issues.

In early February 2016, Schäuble has maintained that Germany is in a position to keep a balanced budget for 2016, keeping the country in its past history of budget austerity.[84]

One area where Germany has lagged behind in terms of fiscal policy is in the introduction of electric cars. Though it is thriving as an automotive market, industry bosses urged on 3 February for the government to implement incentives to boost demands for electric cars. Merkel's ruling coalition has considered introducing

[77] UPDATE 1-Germany to use bigger-than-expected budget surplus on refugees, Reuters 13 January 2016. Access date: 4 February 2016. http://www.cnbc.com/2016/01/13/reuters-america-update-1-germany-to-use-bigger-than-expected-budget-surplus-on-refugees.html.

[78] German states budget 17 bn euros for refugees in 2016: report, France 24 29 December 2015. Access date: 4 February 2016. http://www.france24.com/en/20151229-german-states-budget-17-bn-euros-refugees-2016-report.

[79] Germany sees 2016 budget close to balanced despite refugee crisis, Reuters 9 December 2015. Access date: 4 February 2016. http://www.reuters.com/article/us-europe-migrants-germany-finances-idUSKBN0TS2JX20151209.

[80] UPDATE 2-Germany to use bigger-than-expected budget surplus for refugees. Reuters. 13 January 2016. Access date: 9 May 2016. http://www.reuters.com/article/europe-migrants-germany-budget-idUSL8N14X1MO20160113,

[81] Asylum seekers to cost Germany €50bn within 2 years – forecast, Russian Times 1 Feb. 2016. Access date: 4 February 2016. https://www.rt.com/news/330869-germany-migrants-50bn-cost/.

[82] Germany to cut benefits to refugees who don't integrate – labor minister, Russian Times 1 Feb. 2016. Access date: 4 February 2016. https://www.rt.com/news/330856-refugees-benefits-reduced-integration/.

[83] Germany's finance minister proposes petrol tax to fund refugees, Deutsche Welle 16 January 2016. Access date: 4 February 2016. http://dw.com/p/1Hens.

[84] Germany urges strict budget policy to cope with refugees, France 24 4 February 2016. Access date: 4 February 2016. http://www.france24.com/en/20160204-germany-urges-strict-budget-policy-cope-with-refugees.

a subsidy up to EUR5,000 for electric car buyers, but the country is still largely behind its goal of having 1 million electric cars on the roads by 2020.[85]

Overall, Germany is awarded +1 for its innovation and flexibility in fiscal policy in responding to the European refugee crisis.

Jody Mou

Italy: 0

Italy has partially complied with the commitment to implement flexible fiscal strategies.

At the end of 2015, the unemployment rate in Italy remained at its lowest in three years at 11.4 per cent, compared to European Union's 10.4 per cent.[86] Youth unemployment is especially high, at 44.2 per cent.[87] Employment reforms under Italian Prime Minister Matteo Renzi's 2015 Jobs Act aims to address unemployment by offering tax incentives for employers to hire new employees and making dismissing employees cheaper and less burdensome for employers.[88] The reforms expect to increase the gross domestic product (GDP) by 0.6 per cent after five years and 1.2 per cent after ten years through the creation of 150,000 and 270,000 new jobs, respectively.[89] Preliminary monitoring results from mid 2015 indicate a 1.1 per cent increase in employment and a 2.6 per cent decrease in youth unemployment.[90]

Most notably, Italian banks hold EUR218 billion in bad loans (21 per cent of national GDP) with Italy's third largest bank losing 43 per cent of its market value earlier this year, twice the national rate.[91, 92] Italy has the highest debt-to-GDP ratio in Europe, reaching 136 per cent in 2015.[93] The European Commission made a deal with Italy under which the non-performing loans will be moved to separate, individual entities who will sell debt backed by these assets close to book values.[94] Still, Italy's budget deficit remains below the 3 per cent GDP limit imposed by the European Union.[95] For 2016, Italy's deficit forecast is 2.2 per cent of GDP. [96] Italy's 2016 draft budget is at EUR28.7 billion and is accompanied by a request for additional fiscal flexibility

[85] UPDATE 2-German car industry urges Merkel to help promote electric cars, Reuters 3 February 2016. Access date: 4 February 2016. http://www.reuters.com/article/autos-electric-idUSL8N15I1LH.
[86] Italy unemployment rate stays unchanged, prompting concerns, Bloomberg Business 2 February 2016. Access Date: 4 February 2016. http://www.bloomberg.com/news/articles/2016-02-02/italy-unemployment-stays-unchanged-prompting-outlook-concerns.
[87] Italian Youth Unemployment Rises to its Highest Level Ever, Bloomberg. 31 July 2015. Access date: 9 May 2016. http://www.bloomberg.com/news/articles/2015-07-31/italian-unemployment-rises-with-youth-jobless-at-record-high.
[88] Italy's Jobs Act Creates Significant Labor Reforms, Cross Border Employer April 10, 2015. Access Date: 4 February 2016. http://www.crossborderemployer.com/post/2015/04/10/Italye28099s-Jobs-Act-Creates-Significant-Labor-Reforms.aspx.
[89] Italy structural reforms: impact on growth and employment, OECD Secretariat February, 2015. Access Date: 4 February 2016. http://www.oecd.org/italy/structural-reforms-in-italy-impact-on-growth-and-employment.pdf
[90] The Jobs Act, Italian Ministry of Labour and Social Policies. Access Date: 4 February 2016. http://www.ambtallinn.esteri.it/NR/rdonlyres/E2AD6178-5ED5-40FC-9803 2EDB389C87AF/92675/presentazione_30_sett_final_2909.pdf.
[91] Italy Deal With EU to help reduce banks' bad loans, Visco says, Bloomberg Business January 30, 2016. Access Date: 4 February 2016. http://www.bloomberg.com/news/articles/2016-01-30/italy-deal-with-eu-to-help-reduce-banks-bad-loans-visco-says.
[92] Italy does deal with EU on scheme to shed banks' bad loans, Reuters UK January 26, 2016. Access Date: 4 February 2016. http://uk.reuters.com/article/uk-eu-italy-banks-idUKKCN0V42NW.
[93] Italy's bank debt clean-up: a small step, DW 29 January, 2016. Access date: 4 February 2016. http://www.dw.com/en/italys-bank-debt-clean-up-a-small-step/a-19012641
[94] Will Italian banks spark another financial crisis?, Global Risk Insights, 7 March 2016. Date of Access 9 May 2016. http://globalriskinsights.com/2016/03/will-italian-banks-spark-another-financial-crisis/.
[95] Growth, migration worries put EU deficit rules to new test, Reuters UK February 4, 2016. Access Date: 4 February 2016. http://uk.reuters.com/article/uk-eurozone-deficit-forecast-idUKKCN0VD14G.
[96] Analysis: Italy to exploit EU flexibility rules in 2016 budget, Market News October 5, 2015. Access Date: 4 February 2016. https://www.marketnews.com/content/analysis-italy-exploit-eu-flexibility-rules-2016-budget

to accommodate structural reform and an investment plan.[97] In November 2015, the European Commission reacted to this draft budget by noting that Italy was in danger of violating compliance standards.[98] Despite this, on 3 February 2016, Italian Economy Minister Pier Carlo Padoan stated that he believes asking for accommodation where Mediterranean refugee crisis costs are concerned is Italy's basic right.[99] On 23 April 2016, it was reaffirmed that Italy would likely miss fiscal flexibility targets for this year.[100]

Italy's National Operation Plan 2014-2020 plans on spending EUR1.84 billion on transport systems and the central network infrastructure with a EUR1.38 billion contribution from the European Regional Development Fund.[101] An allocation of 80 per cent of the budget is reserved for the five least developed regions in Italy.[102]

Because Italy is the second largest port for refugees, accounting for a 0.2 per cent projected increase in its deficit, Renzi argued that the country should not be held financially accountable for refugees, invoking the flexibility clause applicable in extenuating circumstances.[103,104]

Despite the fact that it has instituted several plans and has sought to accelerate its debt reduction, Italy is given a score of 0 for an extended period of poor growth, high unemployment and demands for lenient treatment from the European Commission, which can be explained by its attempts at labour reform and management of refugee crisis.

Seemi Qaiser

Japan: +1

Japan has successfully implemented fiscal flexibility, growth, job creation and debt as a share of gross domestic product (GDP) into their fiscal policy decisions. Japan has tailored their fiscal policy in order to address the issues of deflation and an aging workforce while remaining committed to reducing the country's debt to GDP ratio.

In 2015, Prime Minister Shinzo Abe issued "Urgent Policies to Realize a Society in Which All Citizens are Dynamically Engaged," which set out Abe's three new "arrows" of long-term fiscal policy.[105] These new goals included increasing Japan's nominal GDP and birthrate as well as improving social services that provide elder care to the country's aging population.

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[97] EU warns Italy's 2016 draft budget "at risk of non-compliance", News Xin Hua Net 18 November 2016. Access Date: 4 February 2016. http://news.xinhuanet.com/english/2015-11/18/c_134826596.htm.

[98] EU warns Italy's 2016 draft budget "at risk of non-compliance", Xinhuanet.com 17 November 2015. Access date: 5 May 2016. http://news.xinhuanet.com/english/2015-11/18/c_134826596.htm

[99] Padoan says Italy has flexibility right, Ansa.it 3 February 2016. Access date: 5 May 2016. http://www.ansa.it/english/news/politics/2016/02/03/padoan-says-italy-has-flexibility-right_5e0339b2-6ba5-481e-a5ad-18f654ead701.html.

[100] Analysis: EU Fiscal Data Shows Mixed Results for Key Member States, Euro Insight 21 April 2016. Access date: 5 May 2016. https://euroinsight.mni-news.com/posts/analysis-eu-fiscal-data-shows-mixed-results-for-key-member-states-9657.

[101] Italy's NOP infrastructure plan calls for 1.84 bn in spending, Italy24 17 November, 2015. Access date: 4 February 2016. http://www.italy24.ilsole24ore.com/art/government-policies/2015-11-16/pon-plan-174000.php?uuid=ACWK9IbB.

[102] National Operational Plan aims to modernise Italian government, Adrian Offerman 9 March, 2015. Access date: 4 February, 2016. https://joinup.ec.europa.eu/community/opengov/news/national-operational-plan-aims-modernise-italian-government.

[103] EU Slashes 2016 Inflation Forecast to 0.5 per cent as Growth Seen Slower, Bloomberg Business February 4, 2016. Access Date: 4 February, 2016. http://www.bloomberg.com/news/articles/2016-02-04/eu-cuts-euro-area-growth-outlook-as-emerging-economy-risks-grow.

[104] Italy seeks flexibility on EU deficit rules to meet refugee costs – update, Nasdaq February 4, 2016. Access Date: 4 February, 2016. http://www.nasdaq.com/article/italy-seeks-flexibility-on-eu-deficit-rules-to-meet-refugee-costs-update-20160204-00627.

[105] Abe aims arrows at new targets with three fresh goals for 'Abenomics,' 20 per cent rise in GDP, The Japan Times 24 September 2015. Access date: 4 February 2016. http://www.japantimes.co.jp/news/2015/09/24/national/politics-diplomacy/abe-outlines-new-goals-abenomics-20-rise-gdp/#.VrLunLIrLIW.

Akira Amari, Japan's Minister of State for Economic and Fiscal Policy, has pledged to increase the country's nominal GDP to JPY600 million by 2020 in order to combat deflation and revitalize the workforce.[106] As a part of this goal, Japan will reduce the effective corporate tax rate by 2.14 per cent in 2016.[107] Additionally, Japan has pledged to reform regulatory barriers to businesses investing in equipment, technology and human resources.[108] As a part of their "Public-Private Dialogue towards Investment for the Future," Japan will encourage private businesses to make these necessary investments.[109] In order to promote short-term growth, Japan has also committed to an annual 3 per cent increase in the minimum wage until 2020.[110]

The 2016 fiscal budget was approved on 24 December 2015 and increases public expenditure on public works to JPY5.97 trillion.[111] Additionally, the budget of the Japan Tourism Agency was doubled in ordered to reach the target of attracting 30 million tourists on an annual basis.[112] Much of the increase in government expenditure is expected to be countered by a higher tax revenue due to growing corporate profits.[113]

Moreover, Japan has implemented fiscal policies to increase the nation's birth rate from 1.42 per cent to 1.8 per cent. These fiscal policies also address concerns that individuals are leaving the workforce in order to provide child care. As a part of this policy goal, Prime Minister Shinzo Abe has promised to expand the number of children accepted into childcare form 400,000 to 500,000.[114]

In response to Japan's sluggish national economy, the Cabinet approved a JPY3.3 trillion supplementary budget on 18 December 2015.[115]

In order to rein in a national debt that has doubled the country's GDP, Japan has pledged to report a primary budget surplus in 2020.[116] The 2016 budget reduces the primary budget deficit to JPY10.8 trillion, thanks in part to a restrained bond issuance policy. The budget caps bond issuance at JPY34.4 trillion, reducing the

[106] Economic Policy Speech by Akira Amari, Minister of State for Economic and Fiscal Policy, to the 190th Session of the Diet, CAO, 22 January 2016. Date of Access: 9 May 2016. http://www5.cao.go.jp/keizai1/2016/0122keizaienzetsu-en.pdf.

[107] Japan to cut corporate tax rate to 29.74 percent in two stages: sources, Reuters (Tokyo) 11 December 2015. Access date: 4 February 2016. http://www.reuters.com/article/us-japan-economy-tax-idUSKBN0TV02D20151212.

[108] Urgent Policies to Realize a Society in Which All Citizens are Dynamically Engaged, Prime Minister of Japan and His Cabinet 26 November 2015. Access date: 4 February 2016. http://japan.kantei.go.jp/97_abe/Documents/2015/__icsFiles/afieldfile/2016/01/22/urgentpolicies_20151126.pdf

[109] Public-Private Dialogue towards Investment for the Future, Prime Minister of Japan and His Cabinet. 15 October 2015. Date of Access: 9 May 2016. http://japan.kantei.go.jp/97_abe/actions/201510/16article3.html.

[110] Japan to raise minimum wage by 3 per cent to boost consumption, The Globe and Mail 24 November 2015. Access date: 4 February 2016. http://www.theglobeandmail.com/report-on-business/international-business/asian-pacific-business/japan-to-raise-minimum-wage-by-3-per-cent-to-boost-consumption/article27449153/.

[111] Cabinet approves record ¥96.7 trillion budget for fiscal 2016, The Japan Times 24 December 2015. Access date: 4 February 2016. http://www.japantimes.co.jp/news/2015/12/24/national/politics-diplomacy/japans-cabinet-oks-record- per centC2 per centA596-7-trillion-fiscal-2016-budget-focused-welfare-fiscal-health/#.VrLskrIrLIW.

[112] Japan doubles overseas tourist target for 2020, The Japan Times, 30 March 2016. Date of Access: 9 May 2016. http://www.japantimes.co.jp/news/2016/03/30/national/japan-doubles-overseas-tourist-target-2020/#.VzDsRiMrI6U

[113] Tax haul buys another year of inaction on spending, Nikkei Asian Review 25 November 2015. Access date: 4 February 2016. http://asia.nikkei.com/Politics-Economy/Policy-Politics/Tax-haul-buys-another-year-of-inaction-on-spending

[114] Japan to ease rules on temp workers' child-care leave, The Japan Times 25 November 2015. Access date: 4 February 2016. http://www.japantimes.co.jp/news/2015/11/25/national/japan-ease-rules-temp-workers-child-care-leave/#.VrL7rrIrLIU.

[115] Japan plans supplementary budget of ¥3.3 trillion, sources say, The Japan Times 5 December 2015. Access date: 4 February 2016. http://www.japantimes.co.jp/news/2015/12/05/national/politics-diplomacy/japan-plans-supplementary-budget- per centC2 per centA53-3-trillion-sources-say/#.VrLs97IrLIU.

[116] Cabinet approves record ¥96.7 trillion budget for fiscal 2016, The Japan Times 24 December 2015. Access date: 4 February 2016. http://www.japantimes.co.jp/news/2015/12/24/national/politics-diplomacy/japans-cabinet-oks-record- per centC2 per centA596-7-trillion-fiscal-2016-budget-focused-welfare-fiscal-health/#.VrLskrIrLIW.

bond reliance ratio.[117] Japan also showed restraint through their social security expenditure, which only increased by JPY500 billion in 2016.[118]

Thus, Japan has been awarded a score of +1 for successfully incorporating growth, job creation, debt-to-GDP ratio and fiscal flexibility into its short run fiscal plans.

Anthony Piruzza

United Kingdom: +1

The United Kingdom has fully complied with its commitment to continue implementing strategies for fiscal flexibility, with a focus on supporting growth and job creation as well as debt as a share of gross domestic product (GDP) sustainability.

In April 2012, the Innovation Fund was launched as a means of addressing youth unemployment. Providing GBP30 million over three years, this government project aimed to help youth over the age of 14 participate in education and training to improve their employability and reduce chances of future dependency. Over a six-month period in 2015, more participants have been enrolled in this program, thus indirectly increasing the potential for a greater number of employed young adults.[119]

In addition, the Welsh government announced to allocate GBP25 million to support the continuation of the Jobs Growth Wales program. The program plans to support the "creation of 8955 new job opportunities for 16-24 year olds over the next three years; 2,900 of which are due to be created by the end of March 2016." The main objective is to provide jobs for young, unemployed people for at least six months paid at or above the National Minimum Wage with the intention of sustainable employment thereon.[120]

Furthermore, statistical analysis demonstrated that the UK unemployment rate has decreased to 5.1 per cent in the three months to November 2015 — a 10-year all-time low. Statistical forecast of further decrease to 4.9 per cent by February 2016 is to be expected.[121]

On 8 July 2015, Chancellor George Osborne and HM Treasury presented the "Summer Budget 2015," which included several proposals to promote economic growth and fiscal flexibility. First, a new National Living Wage of GBP7.20 an hour is to be introduced by April 2016 for people aged 25 and over, with a gradual rise to GBP9+ by the year 2020. Second, the government will reduce the deficit by 1 per cent of GDP on average per year, leading to achievement of a surplus in 2019-20. Third, the Ministry of Defence's budget will be increased by 0.5 per cent above inflation each year up to 2020 in order to protect defense spending. The government will also adhere to the North Atlantic Treaty Organization (NATO) pledge to spend 2 per cent of national income on defense every year.[122]

Summer Budget 2015 included measures to support London, the South East, and the South Coast. Osborne declared that this budget "puts security first. It delivers economic security so Britain lives within its means,

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[117] Japan's bond dependency ratio set to fall to 35%, lowest in nine years. The Japan Times. 21 Decemeber 2016. Date of Access: 9 May 2016. http://www.japantimes.co.jp/news/2015/12/21/business/nations-bond-dependency-ratio-set-fall-35-lowest-nine-years/#.VzDtEyMrI6U.

[118] Japan's draft budget a firm move against fiscal headwinds, The Japan Times 24 December 2015. Access date: 4 February 2016. http://www.japantimes.co.jp/news/2015/12/24/business/japans-draft-budget-firm-move-fiscal-headwinds/#.VrLst7IrLIX.

[119] Youth Unemployment Innovation Fund Pilot: Starts and Outcomes, January 2015. Access Date: 4 February 2016. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/491385/youth-unemployment-innovation-fund-pilot-starts-and-otcomes-to-sept-2015.pdf.

[120] Jobs Growth Wales, Llywodraeth Cymru Welsh Government 13 May 2015. Access date: 4 February 2016. http://gov.wales/topics/educationandskills/skillsandtraining/jobsgrowthwales/?lang=en.

[121] United Kingdom Unemployment Rate, Trading Economics. 20 January 2016. Access date: 4 February 2016. http://www.tradingeconomics.com/united-kingdom/unemployment-rate.

[122] Summer Budget 2015: Key announcements, Gov.UK. 8 July 2015. Access date: 4 February 2016. https://www.gov.uk/government/news/summer-budget-2015-key-announcements.

financial security for families, and national security for all." The Thameslink project — brand new trains and rebuilding of the London Bridge Station — is to be finished, creating 24,000 new jobs and over 18,000 new homes. [123]

Moreover, revisions to the economy forecast were made by the Office of Budget Responsibility (OBR) in the "Economic and Fiscal Outlook." The projected GDP growth was reduced to 2.4 per cent. Tax increases, welfare cuts, and other spending decisions will raise an estimated GBP100 billion over the next few years. However, these in-year cuts will be back-loaded, causing GDP growth in 2016 to remain unchanged. As a result, the slower cuts in 2016-17 are offset, and growth will then rise in 2017.[124]

In this OBR Budget, the government has outlined two new fiscal targets: "to achieve a surplus on public sector net borrowing in 2019-20 (and then every year in 'normal times') and for public sector net debt to fall as a share of GDP every year up to 2019-20." The report further mentions that their central forecast is consistent with meeting the targets they have now enlisted, as well as previous ones that are still in force.

The United Kingdom has implemented new strategies for fiscal flexibility in addition to continuing previous notions. They have also made a priority to focus on creating new jobs and planning for debt as a share of GDP sustainability. Thus, the UK has been awarded a score of +1 for full compliance.

Analyst: Yilin Tian

United States: +1

The United States has fully complied with the commitment to implement flexible fiscal strategies.

President Barack Obama's 2016 budget is meant to assist middle-class families by bringing what he calls "middle-class economics in the 21st century." This policy includes tax cuts for families paying child care up to USD3,000 per child. It amends the Child and Dependent Care Tax Credit to increase the amount for families in various circumstances, a move that will benefit 6.7 million children. The tax code is also reformed to support families in which both spouses work by providing a second earner tax credit, and expanding the Earned Income Tax Credit.[125] These tax cuts in the new budget demonstrate that the government is willing to carry out tax reforms, which is further a demonstration of the US commitment to fiscal flexibility.

The new budget also promotes job creation and calls for increased availability of training to help people attain these jobs. One way the administration proposes to do this is through the Promise Zones initiative, which will generate partnerships between the federal government and local communities to create jobs. It also promotes expansion of the National Network of Manufacturing institutes by launching seven more institutes in 2016. Supplementing all these job creation initiatives, are proposals for an expansion of employment services, and in-person counselling that will help workers attain these jobs.

America's ratio of gross domestic product (GDP) to debt increased rapidly following the recession, but has been at a high, and somewhat constant rate, of 74 per cent since the past few years. However, the Congressional Budget Office reported in July 2015 that publicly held debt of the US government when

[123] A Budget that delivers on our plan for working people in London and the South East, Gov.UK. 8 July 2015. Access date: 4 February 2016. https://www.gov.uk/government/news/a-budget-that-delivers-on-our-plan-for-working-people-in-london-and-the-south-east
[124] Economic and fiscal outlook. Office for Budget Responsibility. July 2015. Access Date: 4 February 2016. http://budgetresponsibility.org.uk/docs/dlm_uploads/July-2015-EFO-234224.pdf
[125] The President's Budget for Fiscal Year 2016, The White House. Access date: 4 February 2016. https://www.whitehouse.gov/omb/budget.

measured as a percentage of GDP is predicted to reach 103 per cent.[126] So, with regards to the country's commitment to make debt as a sustainable share of GDP, the US has not made much progress.

In the end, statistical data predicts that unemployment in the US is at its lowest since 2008[127] and the economy continues to grow at a rate of 2.7 per cent.[128] Bearing in mind the economic growth of the country, it is to be concluded that the US has succeeded in fulfilling its commitment on fiscal flexibility.

Raafia Shahid

European Union: +1

The European Union has fully complied with the commitment to implement flexible fiscal strategies.

As a part of the Stability and Growth Pact (SGP), the EU continues to establish agreements amongst member states in order to maintain stability of the EMU. Leading to the Elmau Summit, the EU had initiated a Communication on flexibility within the SGP which would be reviewed by the EU Economic and Financial Committee (EFC).[129] On 29 April 2015, it was established that the EFC-Alternates would prepare a commonly agreed position on flexibility in the SGP.[130]

On 27 November 2015, the EFC released a draft for a flexibility clause in the SGP that primarily aimed to provide structural flexibility for cyclical conditions, structural reforms, and government investments aiming at, ancillary to, and economically equivalent to major structural reforms.[131] The draft of the commonly agreed position presents a matrix specifying the annual fiscal adjustments towards the Medium-Term budgetary Objective. [132]

On 8 December 2015, EU finance ministers discussed the preliminary flexibility clause in the SGP, where member states decided to impose limits to the proposed position. Specifically, temporary cumulative deviation from the targets under the structural reform clause and investment clause could not exceed 0.75 percent of the GDP.[133] The iteration essentially led to a cap on the flexibility in the SGP.[134]

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[126] CBO: Debt Headed to 103 per cent of GDP; Level Seen Only in WWII; 'No Way to Predict Whether or When' Fiscal Crisis Might Occur Here, CNS News 10 July 2015. Access date: 4 February 2016. http://cnsnews.com/news/article/terence-p-jeffrey/cbo-debt-headed-103-gdp-level-seen-only-wwii-no-way-predict-whether.

[127] The Employment Situation in October, The White House 6 November 2015. Access date: 4 February 2016. https://www.whitehouse.gov/blog/2015/11/06/employment-situation-october.

[128] CBO Director's Statement About the Budget and Economic Outlook for 2016-2026, Congressional Budget Office 4 February 2016. Access date: 4 February 2016. https://www.cbo.gov/publication/51188.

[129] Council of the European Union. "Encouraging Structural Reforms and Investment: Flexibility of the Stability and Growth Pact Rules." EU Policies in Finance & Finance. EU, 9 Dec. 2015. Web. 10 May 2016.

[130] Council of the European Union. "Encouraging Structural Reforms and Investment: Flexibility of the Stability and Growth Pact Rules." EU Policies in Finance & Finance. EU, 9 Dec. 2015. Web. 10 May 2016.

[131] Economic and Fin. "A C Ommonly A Greed P Osition on F Lexibility within the Stability and Growth Pact." Brussels, 27 November 2015 Ecfin.cef.cpe(2015)2843194rev (n.d.): n. pag. EU Economic and Financial Committee, 27 Nov. 2015. Web. 10 May 2016. <https://euroinsight.mni-news.com/system/uploads/ckeditor/attachment_file/data/0/58/Flexibility_in_SGP_-_Draft_commonly_agreed_position_-_Agreed_by_EFC_27_N....pdf>.

[132] Economic and Fin. "A C Ommonly A Greed P Osition on F Lexibility within the Stability and Growth Pact." Brussels, 27 November 2015 Ecfin.cef.cpe(2015)2843194rev (n.d.): n. pag. EU Economic and Financial Committee, 27 Nov. 2015. Web. 10 May 2016. <https://euroinsight.mni-news.com/system/uploads/ckeditor/attachment_file/data/0/58/Flexibility_in_SGP_-_Draft_commonly_agreed_position_-_Agreed_by_EFC_27_N....pdf>.

[133] Jorge Valero. "Member States Limit New Flexibility Clauses in EU Fiscal Pact." Member States Limit New Flexibility Clauses in EU Fiscal Pact Comments. EurActiv, 09 Dec. 2015. Web. 10 May 2016. <http://www.euractiv.com/section/euro-finance/news/member-states-limit-new-flexibility-clauses-in-eu-fiscal-pact/>.

[134] Jorge Valero. "Member States Limit New Flexibility Clauses in EU Fiscal Pact." Member States Limit New Flexibility Clauses in EU Fiscal Pact Comments. EurActiv, 09 Dec. 2015. Web. 10 May 2016. <http://www.euractiv.com/section/euro-finance/news/member-states-limit-new-flexibility-clauses-in-eu-fiscal-pact/>.

On 10 March 2016, the EU released a briefing on the draft 2016 budgetary plans for the implementation of the SGP.[135] The document mentioned the ongoing considerations of the flexibility clause, recognizing the budgetary considerations for the implementation of the SGP additions.

Though components of the flexibility clause in the SGP have been met with some resistance by member states, the EU has demonstrated significant progress in establishing a plan to implement the integration of fiscal flexibility in its financial structure. The EFC has also set a deadline for a review report before 30 June 2018 in order to re-evaluate the effectiveness of the matrix.

The European Union has therefore been awarded a score of +1 for establishing draft considerations towards a commonly agreed position for flexibility in the SGP.

Nicholas Chong

[135] Angerer, J. "Implementation of the Stability and Growth Pact and the Opinions on 2016 Draft Budgetary Plans." European Parliament (n.d.): n. pag. European Parliament, 10 Mar. 2016. Web. 10 May 2016. <http://www.europarl.europa.eu/RegData/etudes/note/join/2014/497746/IPOL-ECON_NT%282014%29497746_EN.pdf>.