Working Group Workpackage III

Economic and Financial Policy (András Inotai)

Agenda

Thursday 6 June 2013
16.00 – 17.30 h
Fondation Universitaire, Rue d'Egmont 11
Salle tba

"Integration 'by other means'? A transformed eurozone within the European Union"

Outline:
Financial, economic and sovereign debt crises have uncovered gaps in the governance of the European Union in general and the eurozone in particular. While the consequences of reforms agreed in response to the crises are only gradually becoming visible, it is clear that the period of stability of the EU's legal framework (especially as far as provisions on the Economic and Monetary Union are concerned) which the creators of the Lisbon Treaty had hoped for did not materialize.
Against the background of debates on fundamental issues such as the mandate of the ECB, the possible exit of individual countries from the eurozone and the effectiveness of Financial Assisstance programmes, the Working Group aims to assess, from a political economy perspective, the strenghts and weaknesses of the governance framework and to highlight options for improving the functioning of the common currency as a major integration project within the European Union.

Chair:
Andras Inotai, Institute for World Economics, Budapest

Introductory Statements:
Jacques Pelkmans, Centre for European Policy Studies, Brussels
Andrzej Raczko, Member of the Board, National Bank of Poland
Maria Joao Rodrigues, University Institute of Lisbon (ISCT-IUL)

Discussion

Report

Andras Inotai, LISBOAN workpackage leader and chair of the working group on Economic and Financial Policy, began by putting the recent crises in the context of the Lisbon Treaty. Arguing that most of the Lisbon Treaty's innovations were already included in the rejected constitutional treaty, he pointed out that the impact on the institutional structure of the EU was well underway before the Eurozone crisis broke out. In terms of the significance of the more recent reforms, he described the period from 2008 to 2012 as 'moving from the impossible to the unimaginable'. The question was, however, if the reforms so far would prove sufficient. He then gave the floor to the three panelists who had kindly accepted to contribute their views to the working group session.

Andrzej Raczko (National Bank of Poland), began his intervention by analyzing the case for adoption of the euro in Poland. He underlined that Poland had already accepted the euro with its accession to the EU. For Poland, the main advantage of introducing the euro was to guarantee a stable inflow of savings, given that domestic saving was not sufficient. Broadening the view to the whole Eurozone, he then turned to the (fiscal) Maastricht criteria, recently complemented by the Fiscal Treaty. According to him, there was some doubt whether these additional rules would be sufficient to curb excessive spending, because the problem of high public debt persisted: (necessary) structural reforms inevitably increased the debt level in the short run. He argued that therein lay a contradiction between the six-pack and the two-pack. With a view to the banking union, he believed that current plans remained incomplete: there was agreement on the Single Supervisory Mechanism (SSM), but the Single Resolution Mechanism remained vague at the moment and no common deposit guarantee scheme was envisaged so far. With regard to the question which countries a banking union would comprise, he pointed out that the banking union was based on the idea to supervise systemically relevant banks. But while banks in central and eastern Europe were probably not systemically relevant for the Eurozone, they were relevant in other ways, e.g. domestically. He noted that Poland would like to take part in the SSM in view of its future accession. Concerning macroprudential regulation, he described the difficulty to run a 'one size fits all' macroeconomic policy. Returning to the Maastricht criteria (which were based on the idea of nominal convergence), he argued that the inflation criterion was obsolete, as the case of Ireland had demonstrated. In his view, the main argument for the criteria's perpetuation was to treat all countries equally.

Maria Joao Rodrigues (University Institute of Lisbon) in her presentation focused on the potential of the post-Lisbon institutional architecture to address the crisis. Firstly, with a view to the risk of sovereign collapse, the discussion had been on addressing Balance of Payment problems in the new member states. Secondly, in order to keep the unity of the Eurozone, the ESM was introduced by means of a first change to the Lisbon Treaty. Thirdly, the Treaty on Stability, Coordination and Governance (TSCG) complemented the existing framework but was designed to be digested by the EU legal framework sooner or later.

She then briefly discussed the different proposals for advancing towards 'genuine economic and monetary union', such as Banking Union, a Eurozone fiscal capacity, a European Debt Agency (or even Treasury), different types of Eurobonds, or Political Union. According to

Maria Joao Rodrigues, all of these proposals implied a definition of fiscal integration as the enforcement of discipline, but also as a capacity for stability and sometimes redistribution.
Turning to the process of implementing reforms, she argued that the potential of the Lisbon Treaty should be used wherever possible, for example through Article 136 or enhanced cooperation. But given that the limits of the Lisbon Treaty may be reached, its revision (through an Intergovernmental Conference) should not be excluded. Whatever the approach, she stressed that inclusiveness was a crucial point, for instance by using an Eurozone + X format.
The third presentation was given by Jacques Pelkmans (Centre for European Policy Studies Brussels). He used the example of the 2005 Jackson Hole conference to describe how many economists had failed to take warnings of a financial crisis seriously. Turning to the Eurozone, he underlined the long-standing problem that while Monetary Union was defined by the common currency, it was unclear what Economic Union was. With a view to the TSCG, he argued that it largely clarified existing rules. The main innovative element concerned national debt brakes, which were expected to become operational only in several years' time, however. Under current circumstances, he considered a common budget unlikely. Transfers were possible in emergency situations, if at all. Jacques Pelkmans reiterated that one could not put all the blame on the PIGS countries – in terms of the Maastricht criteria, Ireland and Spain had been among the 'best pupils in class' prior to the crisis. He also underlined that the Eurozone had not been hit by an asymmetric external shock during its first ten years and that such a shock was rather unlikely.
The general discussion focused on different aspects of EMU as a case of differentiated integration. Inter alia, *Brigid Laffan* (University College Dublin) asked in how far it was possible to address the different national crises within the Eurozone in an EU framework. Ian Manners (University of Copenhagen) highlighted the various circles of countries linked to the term "Eurozone": the Eurozone, the pre-ins, the UK, Euro-users outside the EU and Switzerland and other countries that have very close ties to the Eurozone. Making reference to Ian Manners's intervention, Jacques Pelkmans highlighted that the European Economic Area had been largely forgotten and raised the issue of what a Banking Union would mean in this context. Maria Joao Rodrigues argued that a Eurozone response was not sufficient but that a proper EU framework was needed. She then dealt with two specific problems for Portugal, namely building up competitiveness and more political stability. At the European level, the Banking Union should be the top priority. She was skeptical towards the idea of a two-speed Europe and pointed towards the large majority of pre-ins, as opposed to the minority of countries still hesitating and the exceptional case UK. Andrzej Raczko argued that leaving the Eurozone did not constitute a panacea for the country in question, but would likely result in serious economic difficulties, as illustrated by the example of Argentina when it gave up the Dollar peg.
Andras Inotai concluded the panel by thanking all participants. He underlined that issues such as structural reforms did not simply pose an economic challenge but a political one. Accordingly, the potential of a society to adapt was essential in his view.

Tobias Kunstein (University of Cologne)