

From the Stability and Growth Pact to the Six Pack

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Greece Bearing the Weight of its Debt





euro; Whining bankers; Europe: castle in the sky





Merkel and Belt tightening in Greece



Structure of the talk

- ① What kind of EMU and euro area was created?
- ② Recent triggers
- ③ Academic responses
- ④ EU responses
- ⑤ Lessons from integration
- ⑥ Solving the euro debt crisis
- ⑦ Conclusion: Towards an Economic Government for the EU?

1. WHAT KIND OF EMU / EURO AREA WAS CREATED?

- A single currency among EC/EU member states:
- Asymmetrical Economic and Monetary Union (EMU) – developed monetary union; lesser developed economic integration
 - Monetary: Free movement of capital; regulation on national central banks; European central bank – monetary policy; but not supervision of national financial markets
 - Economic: single market with coordinated budgetary and fiscal policies
- Main mode of regulation: Treaty and the Stability and Growth Pact
- Understanding: imperfect integration; adjustments would occur when needed.

2. Recent triggers

- Financial Crisis
- Economic Crisis
- Sovereign Debt crisis
- Rise of euroskepticism / lack of public support deeper integration

3. Academic Responses

- Feldstein: EMU will lead to War – insufficiently embedded in a federalist framework
- Eichengreen: Imbalances in the euro area (real economy; not only the fiscal problems)
- De Grauwe: EMU countries become emerging economies

4. EU responses

- Financial Crisis – slow EU response; competition for acting swiftly from Member States (Irish securing bank deposits)
- Economic Crisis – national approaches
- Sovereign Debt crisis – Germany concerned about bail-outs; instead slow process but in the end bail-out necessary
- Rise of Euroskepticism – Approve Lisbon Treaty (watered down Constitutional Treaty – incremental rather than ‘great vision thing’)
- Recent developments: ‘six pack’ and new ‘fiscal stability treaty’ or ‘fiscal compact’ (signed 2 March 2012) requiring balanced budgets in constitutions and fines for not complying

5. Lessons from European integration

- Other challenges from the past:
 - UK entry to the EEC, Empty Chair Crisis, Eurosclerosis of the 1970s and 1980s, difficulties surrounding Maastricht Treaty, and run up to stage three of EMU, French and Dutch referendums 2005, ratification of Lisbon Treaty
 - Stability and Growth Pact: 1995; 1997; 2003; 2005; changes since the crises started; reform Dec 2011

5. Lessons from European integration (cont'd 2)

- Academic literature:
 - European Economic Integration: Stages of integration:
 - Free Trade Area,
 - Customs Union,
 - Single Market,
 - Economic and Monetary Union,
 - Political Union

6. Solving the Euro Debt Crisis

- Less integration (do nothing option)
 - result: possibly collapse of euro area
- More integration
 - enhance the European Financial Stability Facility (EFSF) to be the European Stability Mechanism (ESM) as of July 2012
 - develop economic governance further (European semester; euro bonds; reconceptualise and enhance role of the European Central Bank);
 - Consider steps towards deeper political and fiscal integration.
 - Main challenges:
 - find the right type of European response (whilst staying united)
 - gathering popular/national parliamentary support

7 Conclusions:

Towards an Economic Government for the EU?

- Challenging economic indicators show the limits of the institutional design of the EU today
- Asymmetrical EMU is brought to the test
- Lack of Political Leadership of the EU is challenging
- Experience of the past is that the EU typically makes small incremental, path dependent steps towards solutions
- Question for the next little while: how is to govern the EU / euro area (use the institutional framework provided) without a full commitment to much deeper fiscal and political integration; what institutional changes will be needed?

A vision of the future

PORTUGAL: TEST DE MYOPIE FINANCIÈRE

Vous lisez mieux à gauche, ou à droite ?



Dans les deux cas, j'ai mal aux yeux.



Vadot.

Thank you for your attention

Comments / questions:

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