OVERCOMING THE INSTITUTIONAL MISMATCH OF THE EURO AND EU

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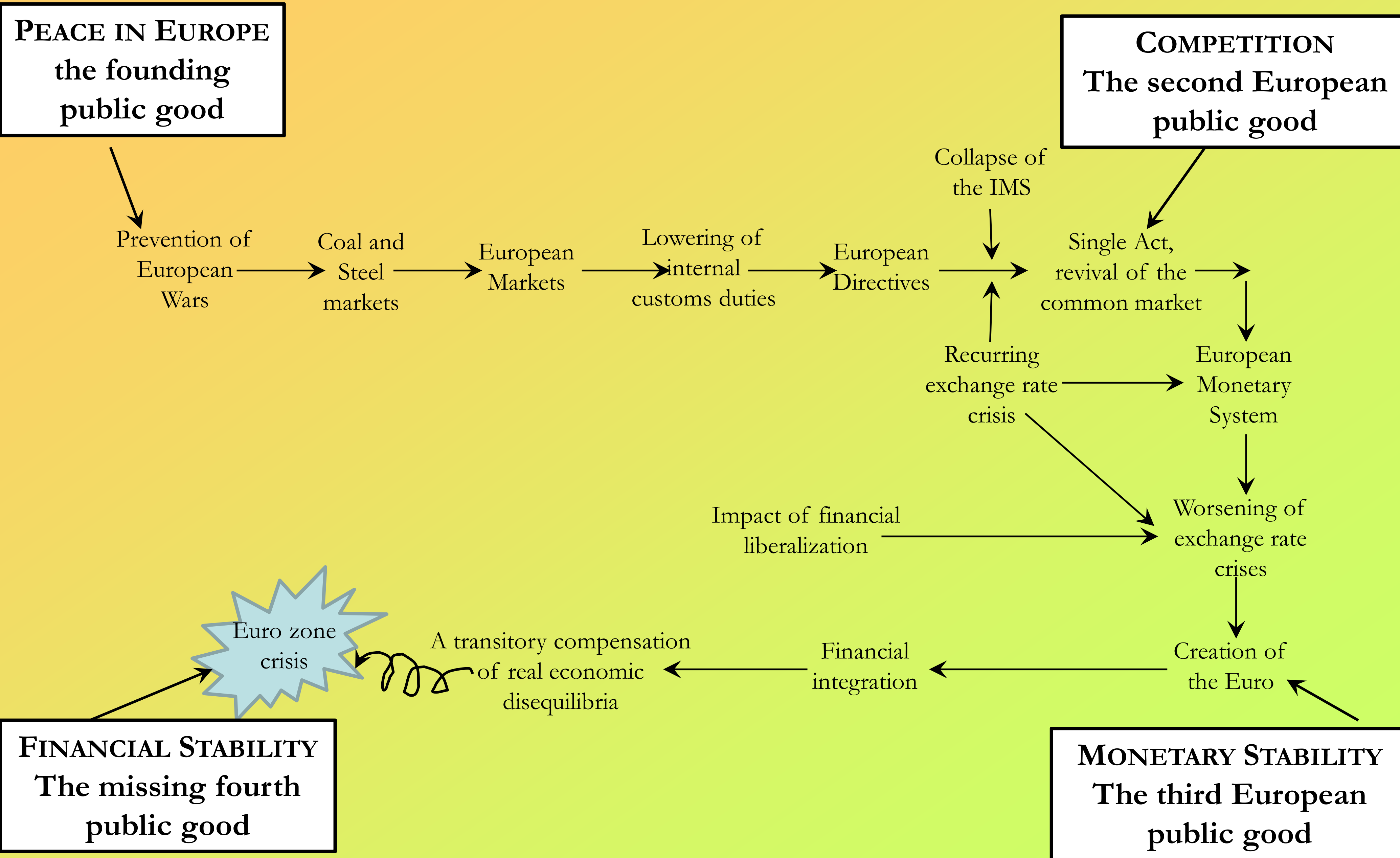
1.Financial liberalization fuels and then reveals the Euro crisis

Since monetary stability does not imply convergence of the real economies nor financial stability, a form of financial federalism was necessary.

Figure 1 – Half century of European integration : building European public goods out of recurring crises



2. The institutional mismatch of the Euro zone is the real origin of its crisis

The incoherence of European / national institutions explain the painful process of "muddling through" from the Spring 2010 to June 2012.

1. *The paradoxical consolidation of contradictory visions*
2. *Persist in the error: continue and strengthen austerity policies*

3. A succession of erroneous diagnoses, a permanent underestimation of the severity of the crisis.Slow deliberation of European authorities, fast and imperative moves of financiers
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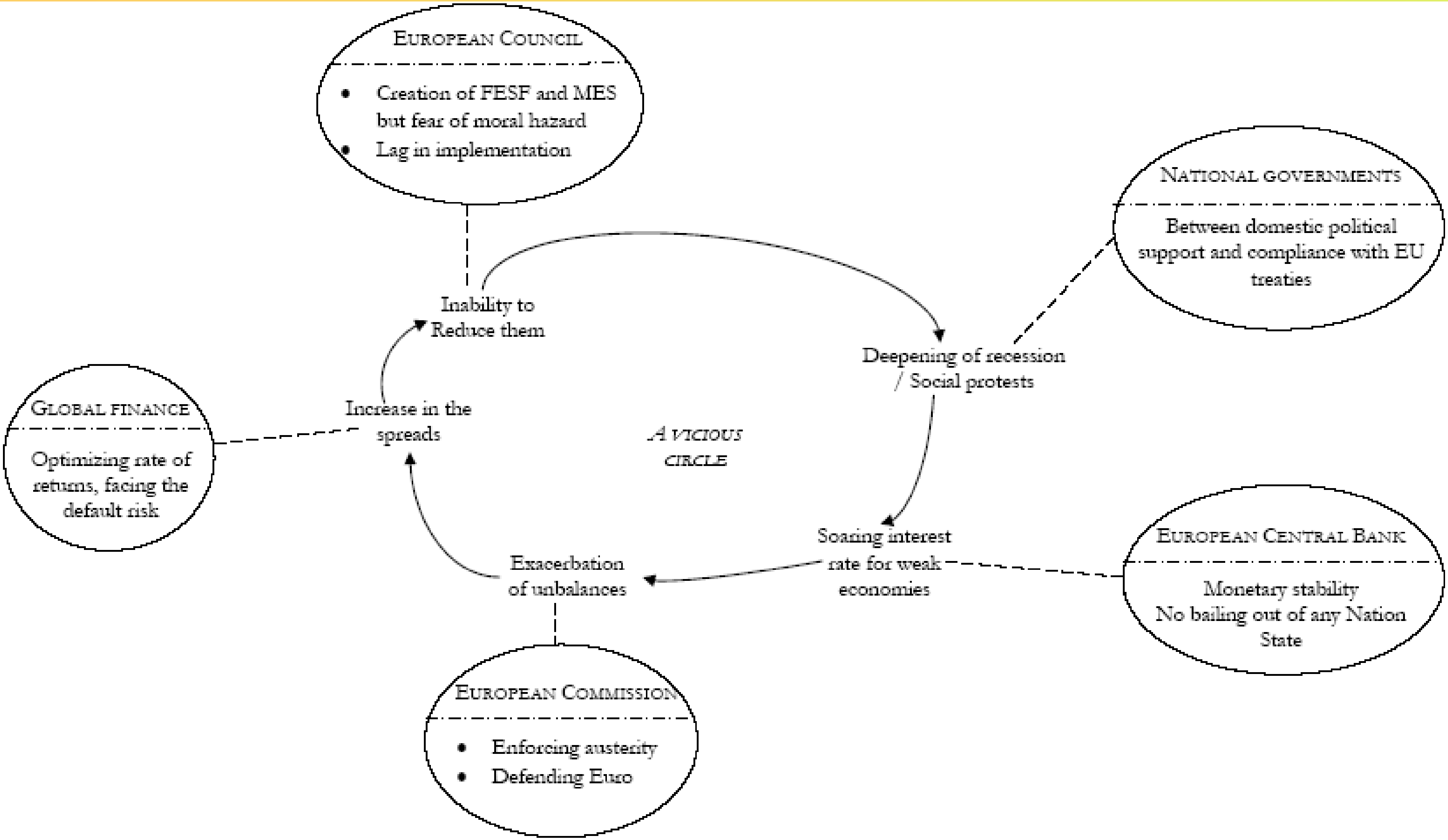
5. The Rawls' veil of ignorance is no more available for renegotiating an adequate, effective and fair European Treaty: losers and winners are known!
6. Irreconcilable objectives of a complex web of actors: the origin of recurrent vicious circles and repeated emergency summits of the European Council

NEXT CRISIS SUMMIT
E.U.
NEXT CRISIS SUMMIT
NEXT CRISIS SUMMIT
NEXT CRISIS SUMMIT
NEXT CRISIS SUMMIT
EUROPE

Figure 2 – The muddling through in the Euro-zone: the consequence of the conflict between the objectives and interests of a web of actors



3. In the era of global finance, the only actor able to stop financial panic is the Central Banker

1. In early June 2012, the most likely scenario was a victory of international finance in the breaking-down of the Euro zone...

....Since the European authorities had shown recurrently their inability to design relevant policies in response to the pressure of financial markets.

2. **This pessimist scenario is brutally reversed by the bold statement from Mario Draghi on July 26th 2012:**

"Within our mandate, the ECB is ready to do whatever it takes to preserve the Euro. And believe me it will be enough [...]

To the extent that the size of the sovereign premia (borrowing costs) hamper the functioning of the monetary policy transmission channel, they come within our mandate [...]

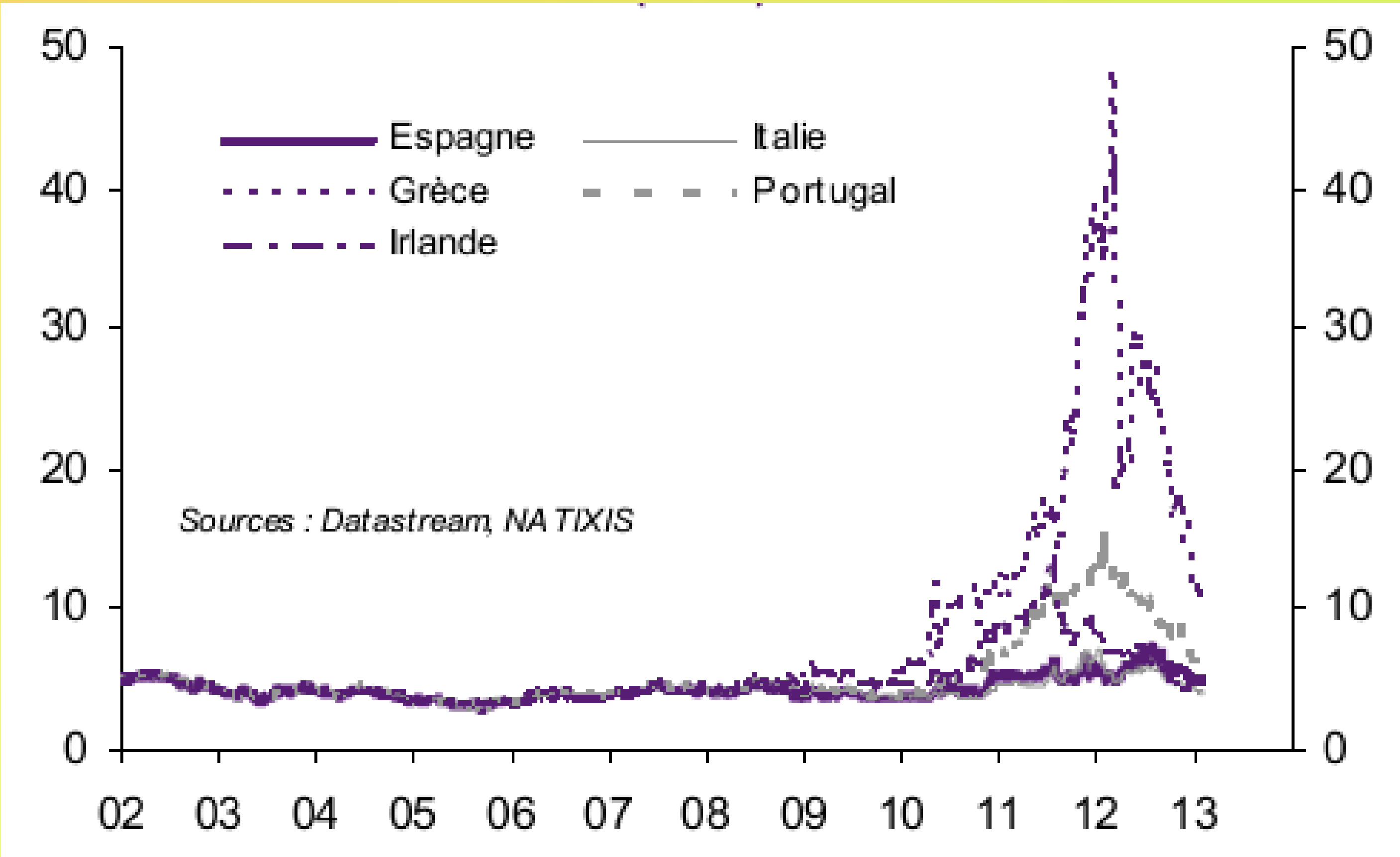
We think that the Euro is irreversible".

- Speech at an Investment conference in London

3. This strategic move sets into motion a virtuous process of "positive contagion" and makes credible the decisions of the 28-29th June European summit.

The financial international community is convinced that the Euro will last

A rapid decline in the cost of refinancing the public debt of the weakest European Economies



Source: Artus Patrick (2013), *Flash Economie*, n° 118, 6 février., p. 5.

3. The European crisis is not over: the financiers are transitorily happy but Europe enters a recession and structural unbalances remain

1. Any lag in implementation or bad surprise may again reverse the expectations of international finance.
2. The risk of collapse has decreased, but new unbalances have to be corrected: an austerity-led recession.
3. National governments disagree in their understanding of the 28-29th June agreements and quarrel about their implementation

Table 1a - Major structural disequilibria remain

EU reaction	Impact: Positive	Impact: Negative
• Project of fiscal setting strict rules for public deficit	• Try to prevent the recurrence of Euro crisis • Comply with the expectations of international finance	• A strait jacket stricter than SGP • Austerity feeds a recession
• ECB decision: 3 years long credit to banks	• Remove the probability of bankruptcy	• Still no massive credit surge • Fear of speculative bubbles and inflation
• Banking regulation at EU level • Surveillance, resolution and possible bailing out by ECB for major/key banks	• A response to Spanish dilemma • A response to trans-border spill over • A necessary complement to European monetary integration	• Reluctance of Spanish government to ask for these funds; • An excessive centralization, conflict with domestic authorities • Another transfer of a national sovereignty • Possible adverse impact upon the autonomy of monetary policy

Table 1b - Major structural disequilibria remain

EU reaction	Impact: Positive	Impact: Negative
• ECB states that the EURO will be defended at any cost	• A fast decline of related interest rate • Return to private capital inflows	• False feeling "the crisis is over" • No transmission to the real economy
• Use the European budget to foster growth by infrastructures and help to innovations	• Recognition of a major weakness, on top of public finance issues	• Rebuttal by Germany of Euro-bound financed growth • Blocking of a EU budget /GDP increase • Pro growth / Competitiveness expenditures are the victims of the bargaining of Member-States
• European Summit June 2012: reduction of Greek debt, 3 years Commitment	• (Provisional) end of Greek exit from Euro expectations	• Social sustainability of austerity programs • Ireland and Portugal ask for the same access to ECB • UK threat that it cold exit from EU

4. - Nobody can anticipate for sure the future of the Euro: it is up to the strategy behavior of a complex web of actors

1. **Prolonging the past has become impossible**

   "Europeans would be as strong as if Europe was united, retain as much sovereignty as if it was not. This contradiction has become untenable."

Sylvie Goulard and Mario Monti (2012), *De la démocratie en Europe*, Flammarion.

Table 2 – A tentative assessment of the seven scenarii

Scenario	Strengths	Weaknesses	Political viability / Legitimacy
1. "Federalism by technocratic rationality"	Search for coherence and resynchronization of EU institutions	New reduction in national sovereignty	Weak unless strong political impulse by a charismatic leader
2. "Ordoliberalismus für Alle": a German Europe	Integration without fiscal federalism	Does not overcome North/South structural unbalances	Deepening of the Maastricht Treaty principles that failed
3. "A North/South divide": a flexible exchange rate between two Euros	Overcomes the basic present unbalances by a return to growth in Southern Europe	A *de facto* breaking down of the EMU	A partial recovery of national autonomy but large political costs for federalists
4. "Chacun pour soi": A wave of nationalism and protectionism	Recovery of national sovereignty	Possible large economic costs	A response to both left and ultra right demands

Table 32(follows) – A tentative assessment of the seven scenarii

Scenario	Strengths	Weaknesses	Political viability / Legitimacy
5. "A British victory": free trade zone + ad hoc partnership	A reconciliation of the diversity of national interests	The end of the political federalism in Europe	A third way between complete collapse and a federalist Europe
6. "More democracy": as a condition for a path towards a federal Europe	A response to the erosion of EU legitimacy	Assumes that an European citizenship can be the cornerstone of a new EU	Dubious in the midst of economic depression
7. "International finance strikes back": The storm after the calm	Puts a pressure upon an unsustainable European configuration	Puts at risk the very basic European project	The real economic global power: complete mobility of huge amount of capital


BANKING UNION
FISCAL UNION
POLITICAL UNION
ECONOMIC UNION
BUILDING OF EUROZONE
SO FAR SO GOOD.
PARESH...

TO LEARNT MORE

- "The four fallacies of contemporary austerity policies: the lost Keynesian legacy", *Cambridge Journal of Economics*, 2012, 36, p. 283-312.
- Origins and ways out of the euro crisis: supranational institution building in the era of global finance, Contributions to *Political Economy* (2013) 32, 97-126.
- The euro crisis: undetected by conventional economics, favoured by nationally focused polity, *Cambridge Journal of Economics* 2013, 37, 533–569.
- The Institutional and Political Crisis of the European Union and Some Ways for Overcoming It, *Perspective on Europe*, Special Issue, August 2013.

Early works on the Euro

- « The Unanticipated fallout of European Monetary Union: The Political and Institutional Deficits of the Euro", Colin Crouch *After the Euro*, Oxford University Press, Oxford, 2000, p. 24-88.

- « Institutional reforms for growth, employment and social cohesion : elements for a European and national agenda », in Maria João Rodrigues eds., *The New Knowledge Economy in Europe, A strategy for international competitiveness and social cohesion*, Edward Elgar, Cheltenham, 2002, p. 146-202.

- "Co-ordination of Economic Policies in Europe: From Uncertainty to Apprenticeship", dans Iian Begg (ed.) *Europe: government and money: Running EMU, the challenges of policy co-ordination, Federal Trust for Education & Research*, Londres., 2002, p. 39-54.

More recent works

- *Political Goals, Legal Norms and Public Goods : The building Blocks of Europe?* Prisme n° 8, Centre Cournot pour la Recherche en Economie, Paris, Novembre 2006. http://www.centre-cournot.org/?wpfb_dl=8

- "The institutional and Policy Weaknesses of the European Union: the Evolution of the 'policy mix'", Benjamin Coriat, Pascal Petit, Geneviève Schmeder (Eds): *The Hardship of Nations: Exploring the Paths of Modern Capitalism*, Edward Elgar, Cheltenham (UK), 2006, p. 161-187.

- « The Lisbon Strategy : merits, difficulties and possible reforms », Dans Marie Joao Rodrigues, Europe, Globalization and Lisbon Agenda, 2009, Edward Elgar, Cheltenham UK, Northampton (MA), p. 149-164.

- *Finance et Globalisation*, **In Japanese**, Fujiwara Shoten, Tokyo, June 2011.

Last but not least

- *Diversity and transformations of Asian Capitalisms*, (with Hiroyasu Uemura and Akinori Isogai (eds)), Routledge, London, 2011.

- "The present crisis. A trump for a Renewed Political Economy", *Review of Political Economy*, Vol. 25 (1), January 2013, p.1 – 38.

- *Overcoming the institutional mismatch of the Euro-Zone. Undetected by conventional economics, favoured by nationally focused politics, fuelled and then revealed by global finance*. **Just published in Japanese, Fujiwara Shoten, Tokyo, February 2013**.

Thanks for your attention and patience

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