

The Eurozone Crisis and the Limits of Economic Integration

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Structure

- Background:
 1. The euro crisis
 2. The Economic and Monetary Union
- A spectrum of further fiscal integration
- The measures adopted:
 1. The Six-Pack
 2. The Euro Plus Pact
 3. The new fiscal treaty
- Fiscal integration within the current Treaties?
- Fiscal integration in the future?

The euro crisis

- Euro countries with too much debt:
 - Ireland
 - Portugal
 - Greece
 - > Risk of default.
- Risk of default makes the markets less willing to lend money (it becomes too expensive for countries to borrow money through bonds)
 - > more risk of default.
- Financial straightjacket.
- Contagion and emergency mechanisms:
 - EFSF
 - EFSM
 - ESM

The EMU

- A state normally controls:
 - Monetary policy:
 - Currency
 - Interest
 - Fiscal policy:
 - Sources of money (tax, etc)
 - Distribution and redistribution of wealth
- Separation:
 - The EU controls monetary policy
 - The Member States retain economic policy (inc. fiscal policy):
 - Structural rules: Stability and Growth Pact (SGP)
 - Coordination: guidelines

Why a problem?

- Contributed to crisis: e.g. monetary union allowed euro states to borrow too much
- All euro states are exposed to the potential default of a few
- It also makes it difficult to address the crisis

What to do?

- Bailouts as a temporary solution (not even)
- Need to address asymmetry between:
 - Monetary policy > centralized
 - Economic policy > decentralized
- Focus has been on further fiscal integration

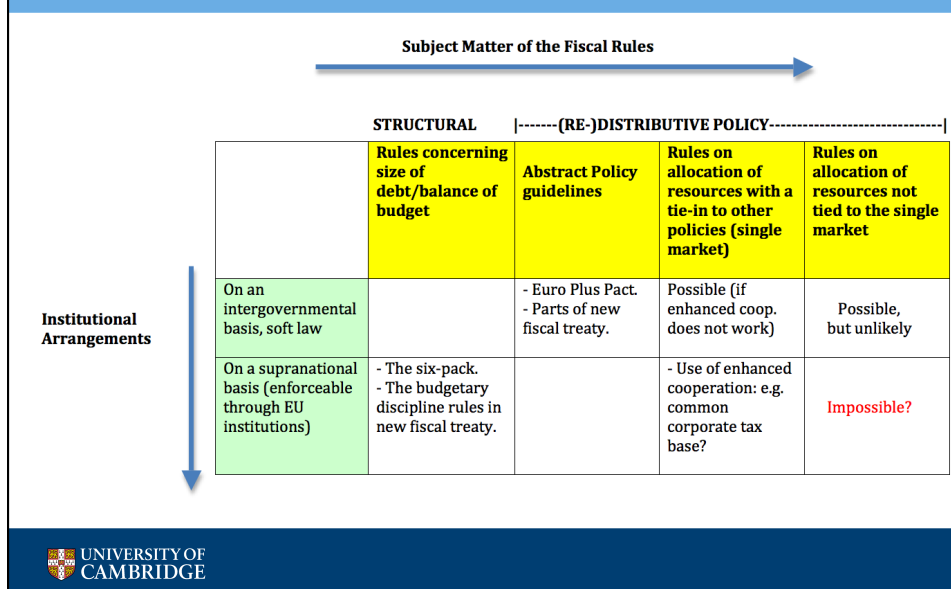
Spectrum of Integration

- One end:
 - Loose political coordination.
 - No enforceable legal obligations.
 - No supranational actors.
- The other (far) end:
 - Full fiscal union, through EU measures (legally binding)
 - Supranational actors.
- Substance of measure determines how far States are willing to go.

Solutions Adopted

- The Six-Pack
- The Euro Plus Pact
- The new treaty ('Treaty on Stability, Coordination and Governance in the EMU')

A Map of Fiscal Integration



The Six-Pack

- EU law measures aimed at strengthening structural rules:
 - Strengthens sanction regime for breaches of the Stability and Growth Pact
 - Introduces monitoring and correction of 'macroeconomic imbalances'

The Euro Plus Pact

- Political agreement, no enforceable obligations
- States undertake to cooperate to improve:
 - Competitiveness
 - Public finance
 - Employment
 - Financial stability
 - Mentions taxation
- ... but they make it clear that the policy choices remain with each State

New Fiscal Treaty 1

- Agreed in January, signed in March 2012
- Intergovernmental treaty outside EU structure
- Two main fronts:
 - Budgetary discipline (structural rules)
 - Rules on size of debt, deficit have to be implemented into national law
 - Coordination of national economic policies
 - Through soft law
 - Through EU law: enhanced cooperation

New Fiscal Treaty 2

- Role of EU institutions:
 - Commission
 - CJEU
- Does the new treaty add anything?
 - Budgetary discipline (national implementation; the rest = six-pack)
 - Coordination of national economic policies
 - Through soft law (such as Euro Plus Pact)
 - Through EU law: enhanced cooperation (already in EU Treaties)
- Political Significance?

What Next for Fiscal Integration?

- Through soft law:
 - Broad political agreements
 - Guidelines
 - Benchmarking, etc.
- Effectiveness?
- Legitimacy?
- Transparency?

What Next for Fiscal Integration?

- Through EU law:
 - Arts 2(3) TFEU: only *coordinating competence* in economic policy.
 - > No independent fiscal or broader economic policy.
 - Enhanced cooperation cannot create competence.
 - Limited to discrete fiscal measures that are linked to other, more specific policies (internal market, Arts 113 and 114 TFEU)

How about Extending Competence?

- Member States can extend competence through amendment of Treaties:
 - > Creation of a common fiscal policy?
- Problems:
 1. Political Reality
 2. The Principle of Conferral
 3. Democratic Legitimacy/ Fiscal Solidarity
 4. National Constitutional Courts and the 'constitutional identity' of the State

German Constitutional Court (Lisbon Decision)

- Link between certain areas, democratic legitimacy and the State
- Unless we create a federal state (with proper representative democracy), certain areas need to remain purview of national democracy:
 - '[D]ecisions on substantive and procedural criminal law, on the disposition of the monopoly on the use of force by the police and by the military, fundamental fiscal decisions on public revenue and expenditure, decisions on the shaping of the social State and of particular cultural importance, for example on family law, the school and education system and on dealing with religious communities.'

Final Reflections: the Situation Now

- Line drawn between:
 - Structural rules
 - Substantive fiscal policy (distributive/redistributive effects)
- The latter are more dangerous territory: soft law, limited competence to adopt EU law.

Final Reflections: a Future EU Policy?

- Principle of Conferral
- Democratic Legitimacy:
 - How much can we decouple the fundamentals of fiscal policy from national politics
 - The decoupling has already occurred in certain areas: single market
 - Does a fiscal policy require more democratic legitimacy? (fundamental/overarching?)
- (Re-)distributive policies as limits to integration within the current structure
- Near future:
 - Member States trying to navigate between:
 - Ineffectiveness
 - Crossing the limits of (re-)distribution
 - Further economic integration outside fiscal policy: further use of regulatory policies (single market, perhaps employment?)