THE EURO CRISIS, DEMANDS FOR FISCAL UNION AND HARD POLITICAL REALITIES

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WHAT EUROPE IS... & IS NOT

- A federal entity
  - It lacks top-level powers of tax & spend
  - Mix of common & national policy assignments
    - Trade (all 27 Member States)
    - Monetary policy (17 MSs)
    - Fiscal and supply-side (nationally fragmented)

- Instead a union of still powerful states
  - Hence awkward challenges of coordination
  - Persistent assertion of national imperatives
FISCAL UNION DEBATE
Clear shift from ‘No transfer union!’

Yet (dangerously) ill-defined
– At least three interpretations
  1. Closer integration of budgetary policy
  2. Provision of liquidity/financing
  3. Cross-border transfers to pay for public services
– Implicit transfers through ECB financing

Politically beyond reach (?): EU budget

We’re left only with ad hoc solidarity
WHO IS HOLDING WHOM TO RANSOM?

GREEKS > OTHER MEMBER STATES

BANKERS > TAX-PAYERS IN EL, IE, PT

TAX DODGERS > ORDINARY CITIZENS
WHAT NEXT? 4 SCENARIOS

- Muddling through and reacting to crises
  - The standard EU approach!
- Obvious but stalled option: Euro bonds
  - Subject to political vetoes
- A European finance ministry/EMF?
- Break-up and defaults
  - Potentially highly damaging
  - Not clear where or how cards will fall
- So will probably continue to be resisted
Leadership lacking and sorely needed
But who might come to the rescue?

THE €UROBOND DILEMMA

PRO
- Pools risk
- Avoids picking off MSs
- Facilitates lending by:
  - Chinese… and others
- Lowers average rates
- Stabilisation benefits

AGAINST
- Incentives missing for:
  - Germans… and others
- Strong moral hazard arguments
- Political objections
  - Hostile public opinion
If we want things to stay as they are, things will have to change

[tutto deve cambiare perché tutto resti uguale]

Giuseppe de Lampedusa,
“il Gattopardo”