

# THE CONTINUING CHALLENGES FOR THE EUROPEAN ECONOMY

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# THE CONTEXT AND ITS IMPLICATIONS

- Recognition of range of flaws in EMU I
- But differing view on priorities for EMU II
  - The agenda from 4, then 5 Presidents
  - Difficult political economy of sequencing reforms
- New risks from aftermath of crisis
  - Overall capacity for growth diminished
  - Inequalities, both within and between EU Member States
  - Upsurge in migration from under-performing regions
    - Consequent risk of curbing growth potential

# A PROLIFERATION OF REFORMS ....

## FISCAL DISCIPLINE

- Stability & growth pact
- Fiscal compact
  - National rules
- Two-pack

## STRATEGIES PACTS & COMPACTS

- EUROPE 2020
- Euro plus
- Growth & jobs

## OTHER MACRO

- MIP
- Macro-prudential
- Banking union

**All this since  
onset of  
crisis**

## PACKAGES

- Social investment
- Youth guarantee
- Climate change

## AND...

- Budget 2014-20
- Juncker plan for investment: EFSI

## REGULATORY

- Financial sector
- Cutting red-tape

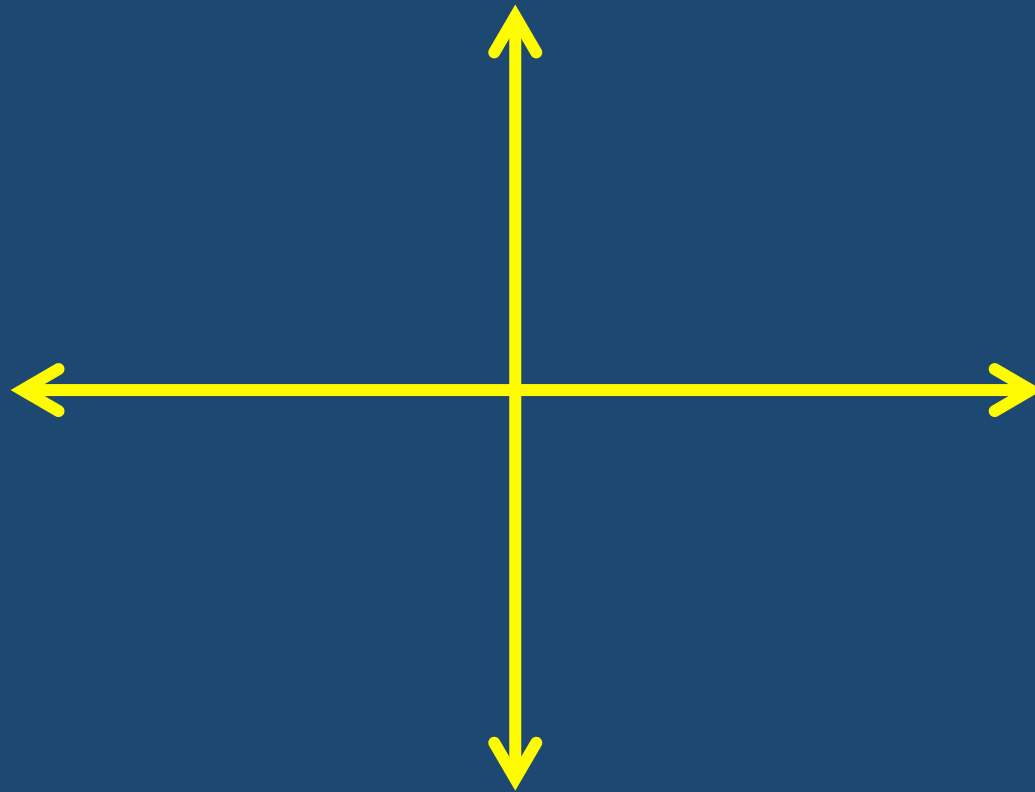
# .... YET, SO FAR, A DEARTH OF RESULTS

- Growth still only anaemic
  - Slow pace of implementation of the Juncker Fund
- Stubbornly high unemployment
  - Although care needed on claims about youth rates
- Continuing threats to fiscal sustainability
- Continuing macroeconomic imbalances
  - But not helpful to debtor countries
- Striking divergence among economies
  - Are France and Italy now the ‘problem children’

# RISK OR CONTROL: THE NUB OF THE PROBLEM

HIGH DEGREE OF SHARING

LAX RISK  
CONTROL

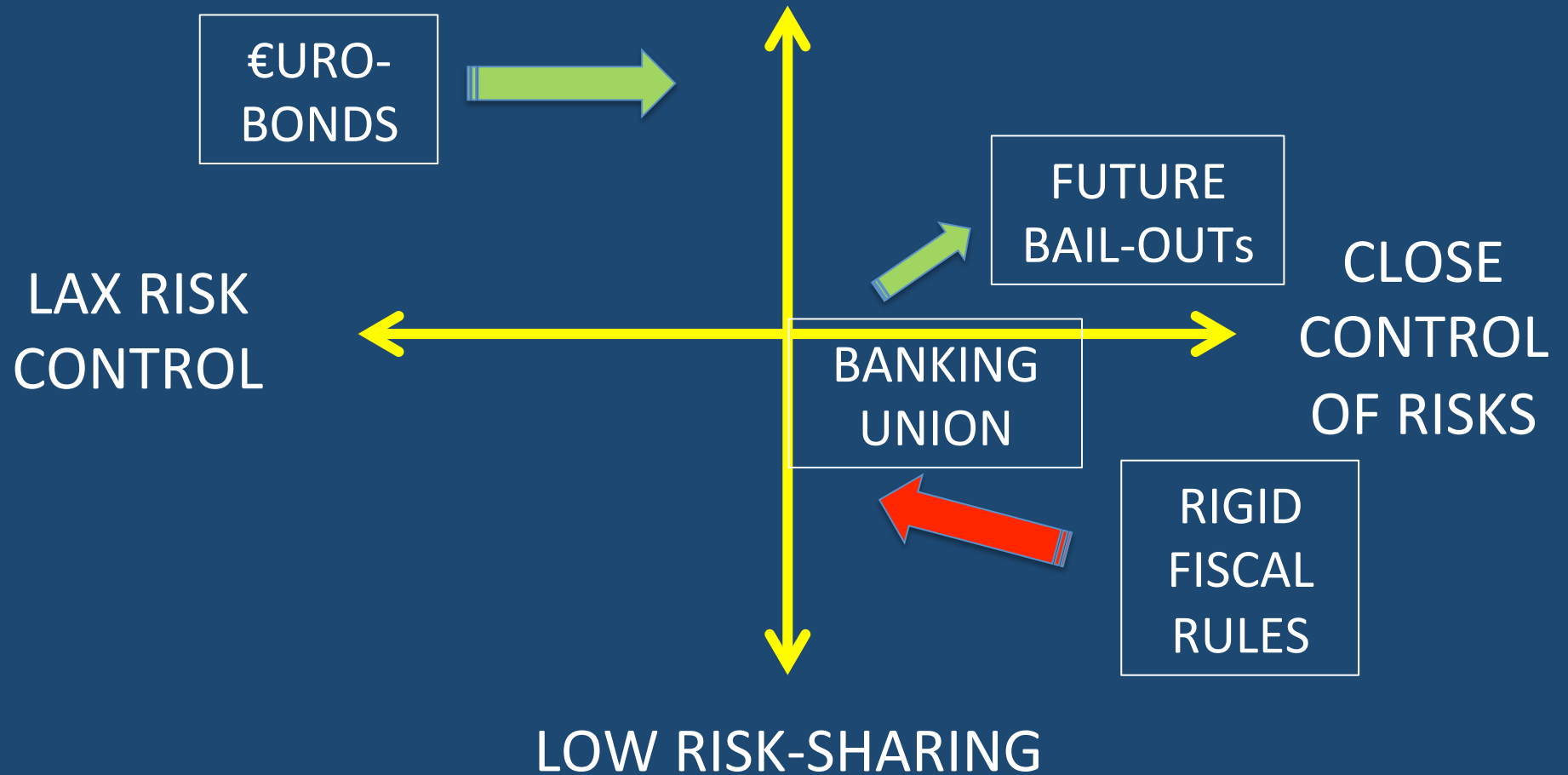


CLOSE  
CONTROL  
OF RISKS

LOW RISK-SHARING

# RISK-CONTROL TRADE-OFF: WHAT?

HIGH DEGREE OF SHARING



# RISK-CONTROL TRADE-OFF: WHO?

HIGH DEGREE OF SHARING

PRO-DEBTORS  
SYRIZA, PODEMOS

LAX RISK  
CONTROL



THE DOUBTERS  
FRANCE, ITALY

CLOSE  
CONTROL  
OF RISKS

HARDLINERS  
DE, NL, FI...& SK

LOW RISK-SHARING

# POLITICAL ECONOMY DILEMMAS

- How do you break the deadlock when:
  - Germany and other creditors stress moral hazard risks
  - While debtors want to emphasise solidarity
  - All at a time when populations are rebelling
- Circumventing constitutional constraints
- The credibility of EU governance mechanisms
  - Common fiscal stance still far from assured
  - Compliance and appropriateness can be in conflict
- Democratic concerns from executive federalism



# CONCLUDING REFLECTIONS

- Lack of growth still having a debilitating effect
  - But social conditions will take time to improve
    - Accentuating political risks, including ‘reform fatigue’
- New economic/fiscal governance framework
  - Still more on stability (control) than solidarity (sharing)
    - Lacks sufficient EU cross-border commitment
  - The risk that process overshadows content
    - The dubious influence of the ‘semester’ process
- Progress overall, but unfinished business remains

AUSTERITY IS NOT PART OF THE  
EUROPEAN TREATIES; DEMOCRACY  
AND THE PRINCIPLE OF POPULAR  
SOVEREIGNTY ARE

ALEXIS TSIPRAS