INSTITUTE FOR WORLD ECONOMICS
OF THE HUNGARIAN ACADEMY OF SCIENCES

Hungary's EU Presidency Series
IWE Short Notice on current developments of the European Union
No. 13.

From Mountains to Molehills?

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The EU-member countries who share a common currency, the euro, have formed an association called the Economic and Monetary Union. After ten years we can affirm with certainty that the monetary union has come into being, but not the economic union. The crisis, triggered in 2008 and until now unfinished, had such a negative impact on two EMU-member countries in 2010 that they were unable to solve this problem alone. For that reason, a new crisis mechanism had to be established in the Eurozone. The direct result is that fiscal transfers among the members of the Eurozone have come into existence, exactly what the financing countries had wanted to exclude via the Maastricht convergence criteria.

The problem was aggravated by the loss of financial sector confidence in the euro. Previously, the financial sector had exhibited no concerns with financing national debt. Though the 17 EMU countries are only integrated in monetary terms, as the Greek crisis began to unfold, the market ultimately began calculating not just the costs of Greece being excluded from the EMU, but also the costs should the euro fall victim to the Greek crisis. This was the unexpected outcome that moved the member states toward fiscal solidarity. And this fact alone raises the possibility of further fiscal and economic deepening. Though it remains unambiguously clear that the Eurozone was able to exist for nearly ten years without fiscal solidarity, it remains unclear whether the same can be said – at least on the basis of current experience – about the next ten years.

This is why the creation of a secure stability instrument like a European version of the International Monetary Fund has been proposed, as well as the introduction of stricter instruments for fiscal rigor than those of the Stability and Growth Pact (SGP). (Regarding the SGP, we must clarify that it was intended originally to promote more stability than growth, if indeed its sanctions could have been imposed at all.)

In a self-reinforcing fashion, the institutions of European policy speak determined that competitiveness problems lay behind the current fiscal crisis. Though this is certainly true, in this case it is difficult to say exactly what is meant by „*competitiveness*".

In early February, the French President and the German Chancellor managed to surprise the European Council by jointly drafting a so-called competitiveness pact on harmonized objectives in several areas covering wages, taxes and retirement regulations. These are the elements of economic policy for which, despite several attempts, it has so far been impossible to achieve harmonization. There are two reasons for this: for one, even after establishing the EMU, fiscal policy has remained in the sphere of national competence. For another, in the single market, the member states compete with each other via economic policy in order to attract more FDI. Ever since the creation of the single market, it has been impossible to harmonize direct taxes and, first and foremost among these among these corporate taxes. Thus the idea of tax harmonization has triggered consternation. But EU heads of state and government have so far also not been able to agree on the question of wage indexing.

After very difficult negotiations at both ends of the Paris-Berlin axis however, an agreement emerged. But the other 25 heads of government have not felt obliged to agree, nor even to acknowledge this achievement. With respect to the formulation of regulations on public finance, and although harmonious compromises were frequently spiced with political blackmail, this axis functioned on into the 90's.

If the six points of the draft pact of competitiveness fail due to the opposition of the member countries, what will happen to the economic part of the EMU? Behind the bold declaration of economic governance we may find a somewhat more detailed analysis and debate of planned national budgets. This is what is meant by the term „*European semester*". But one question will surely remain open: how will the institutionalization of fiscal solidarity be connected to a more consistent and viable fiscal rigor? Currently there are no unambiguous perspectives. The excessive deficit procedure specified in the Stability and Growth Pact has not been able to offer protection against the emergence of fiscal accidents during crisis periods. This is the question to which a decisive response would be a thorough analysis of the unfortunate events in 2010 and the promotion of an irreversible advance of economic deepening. At least until the completion of a political union, the best solution would be continued deepening.

Nevertheless, from the „*regulation dumping*" that will likely follow in the first half of 2011 with the intent of stabilizing the euro, not even a glimpse can be caught of the grandiose project of economic deepening – shared economic governance in an authoritative, tightly sealed institutional framework – that would be necessary in order to achieve this goal. Perhaps the euro will remain. But is it really possible that even a world crisis that shook its very foundations could neither reverse nor correct the corrosive character of European integration?

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