

Behövs mer integration för att rädda euron?

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Two ways to deal with the euro crisis

Adhere to the no-bail-out clause

- Government defaults
- Failing banks
- Deal with the problems in the banking sector
 - European take-over and recapitalisation of failing banks

Violate the no-bail-out clause

- Financial rescue programmes
- Deal with the moral hazard problems
 - strict conditionality
 - more **integration/co-ordination**

Methods to strengthen co-ordination

1. Stronger *economic incentives* at EU level for good economic policy
2. Co-ordination of *national fiscal frameworks*
3. *Transfer of fiscal decisions* from national to *European level*
4. *Banking union*

Stronger economic incentives at EU level

- Earlier and more graduated sanctions in the stability pact
- New *excessive imbalance procedure*
- Reversed qualified majority
- These reforms are likely to be *insufficient*
 - finance ministers will not want to punish their peers
 - the prospect of bail-outs mean that fines lose their teeth

Co-ordination of national fiscal frameworks

- National budget-balance rules
- Automatic correction mechanisms
- Independent fiscal watchdogs
- Improved reporting of public finances
- More transparency
- More **political legitimacy** for common institutional changes than for joint decision-making on actual policies

Transfer of actual decision-making to the European level

- European semester
 - ex ante input into national budget plans
- Commission proposal (two-pack) on Commission evaluation of draft budget
- Formalised procedures for the evaluation of adjustment programmes to states receiving financial assistance (two-pack)
- Contractual commitments by member states with EU institutions on actual policies (van Rompuy interim report)
- Common insurance system against country-specific shocks (van Rompuy interim report)
- Common Treasury
 - veto powers over individual states' budget deficits

Banking union

- Financial supervision at EU level
- Common resolution mechanism?
- Common deposit insurance?

Arguments for banking union

- National regulators may be too lenient for competitiveness reasons
- National supervision will not internalise externalities if troubled banks have to be recapitalised at the European level
- Argument for ECB as supervisor: lender-of-last-resort function requires access to information
- Resolution mechanism and deposit insurance cannot remain at national level with European supervision
- Power concentration in the ECB
- Separate *European Financial Supervisory Authority*?

Likely development of integration

- Given financial rescue programmes it is logical for policy makers to try to achieve more federalism to contain moral hazard
- But *political feasibility* is unlikely
 - opposition in aid-receiving countries
 - unlikely that electorates in aid-giving countries will accept it either

Two probable alternatives

- Plans on more integration cannot be implemented
- This will create an impossible combination of bail-outs and moral hazard
- Break-up of the euro
- Plans on more integration are implemented
- Revolt from voters when they realise what has happened
- Break-up of the euro

Alternative solution

- Shelve the plans to use the current crisis to make a big push for more fiscal integration
- Focus on developing better national institutions
- Resurrect the no-bail-out clause
- Accept sovereign debt write-downs
- Deal with the ensuing banking problems
- Focus further integration on banking union
 - easier to get political legitimacy for bank regulation than for centralising fiscal decisions