

The Deepening of EMU – A Swede's Perspective

Lars Calmfors

Sieps and European Commission

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My comment

1. Reforms undertaken
2. Economic appropriateness of the five presidents' proposals
3. Political feasibility of the proposals

“The financial and economic crisis revealed weaknesses in the Economic and Monetary Union framework”

Reforms

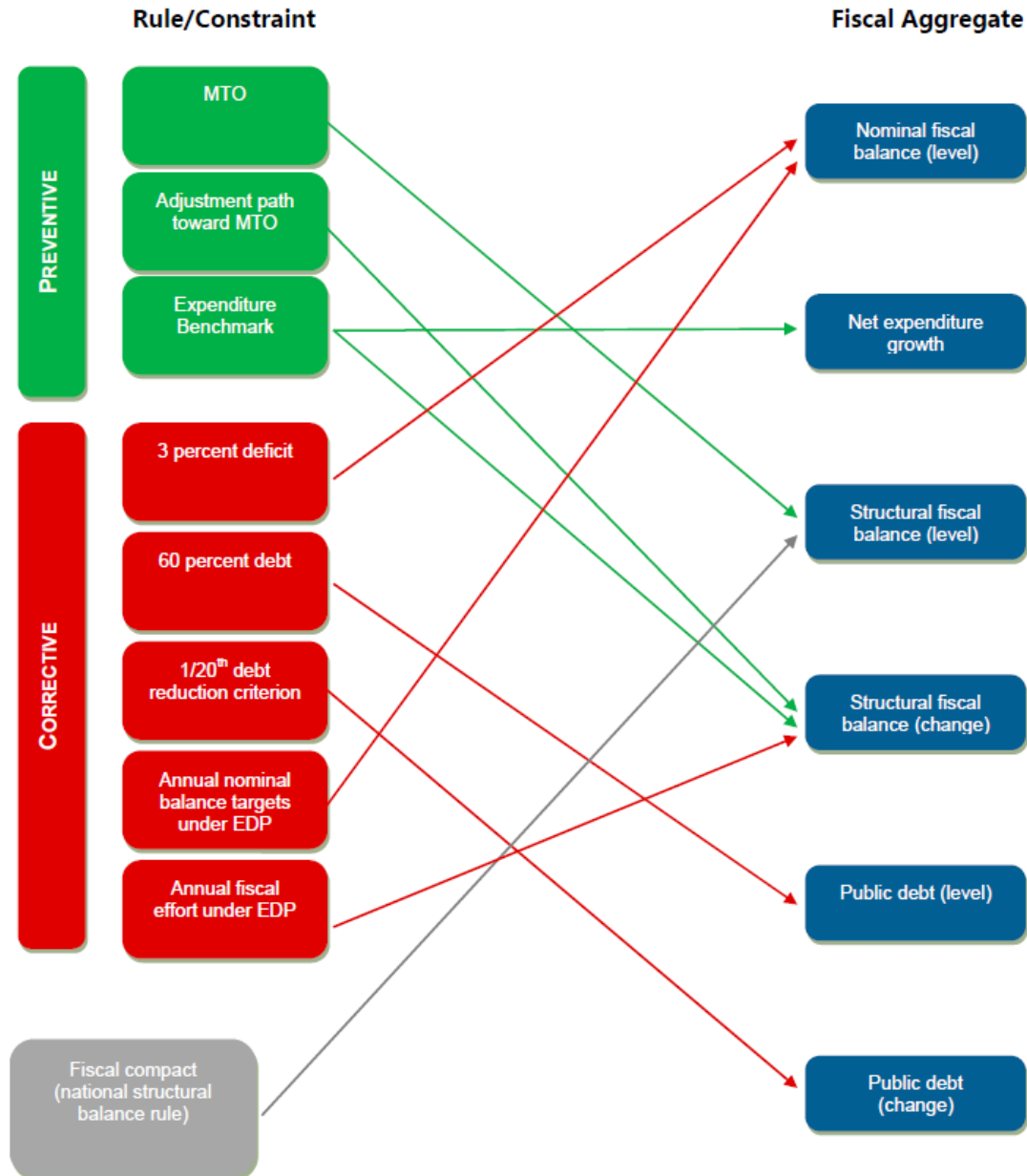
- The European Semester
- Reforms of the Stability Pact
- The Macroeconomic Imbalance Procedure (MIP)
- Strengthening of national fiscal frameworks
- Rescue funds (ESM)
- Banking union

Fiscal rules

- Nominal fiscal deficit ceiling: 3 per cent of GDP
- Government debt ceiling: 60 per cent of GDP
- Stipulations on speed of convergence to government debt ceiling
- Medium-term objectives (MTOs) for structural fiscal balance
- Stipulations on speed of convergence to MTOs
- Net government expenditure rule
- Nominal and structural fiscal balance targets for members states in Excessive Deficit Procedure (EDP)
- National fiscal targets

Figure 3. The EU Fiscal Framework

Multiple Rules and Various Aggregates (as of mid-2014)



Source: IMF.

Table II.2.1: Matrix for determining the annual fiscal adjustment towards the MTO required under the preventive arm

	Condition	Required annual fiscal adjustment*	
		Debt \leq 60% and low/medium sustainability risks**	Debt $>$ 60% or high sustainability risks**
Exceptionally bad times	Real growth $<$ 0 or output gap $<$ -4	No adjustment needed	
Very bad times	$-4 \leq$ output gap $<$ -3	0	0.25
Bad times	$-3 \leq$ output gap $<$ -1.5	0 if growth below potential, 0.25 if growth above potential	0.25 if growth below potential, 0.5 if growth above potential
Normal times	$-1.5 \leq$ output gap $<$ 1.5	0.5	$>$ 0.5
Good times	Output gap \geq 1.5	$>$ 0.5 if growth below potential, \geq 0.75 if growth above potential	\geq 0.75 if growth below potential, \geq 1 if growth above potential

Source: European Commission.

The fiscal rules are too complex

- Violations of fiscal rules should cause reputation costs with voters
- This requires the rules to be simple, at least not overly complex
- Need for clear benchmark against which to evaluate policy
- A Byzantine system
- First priority: Simplify the rules!

Comments on the Five Presidents' Report

- National Competitiveness Authorities
 - diverging wage developments have been a problem
 - relative wage adjustments within countries could be hampered
 - adds to institutional complexity
- Excessive current account deficits as well as **surpluses** are a problem
- Need for completing the Banking Union
 - need for sufficient resources
 - need for European Deposit Insurance
- **Economic** case for joint fiscal-policy decision-making with the chosen bailing-out strategy
 - independent European Advisory Fiscal Board (?)
 - common stabilisation mechanism
 - Eurozone Treasury

European integration process: integration to promote even more integration

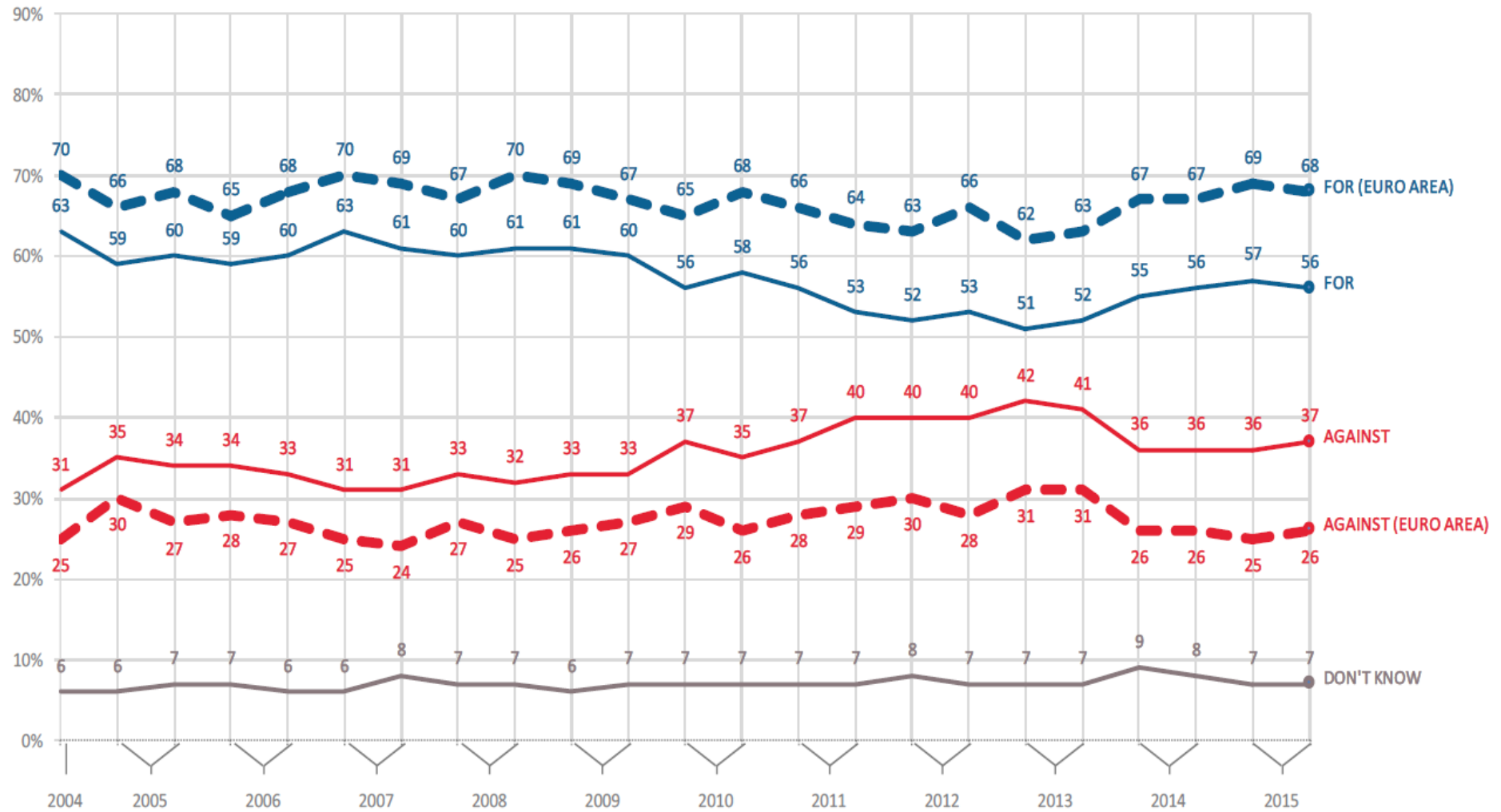
Positive feedback loop

- Successful partial integration serves to increase voters' appetite for more integration

Negative feedback loop

- Failed partial integration requires more integration to avoid disaster
- Works with the banking union
- Does not work with fiscal union

QA15.1 What is your opinion on each of the following statements? Please tell me for each statement, whether you are for it or against it.
 A European economic and monetary union with one single currency, the euro (% - EU)



Source: Eurobarometer Autumn 2015.

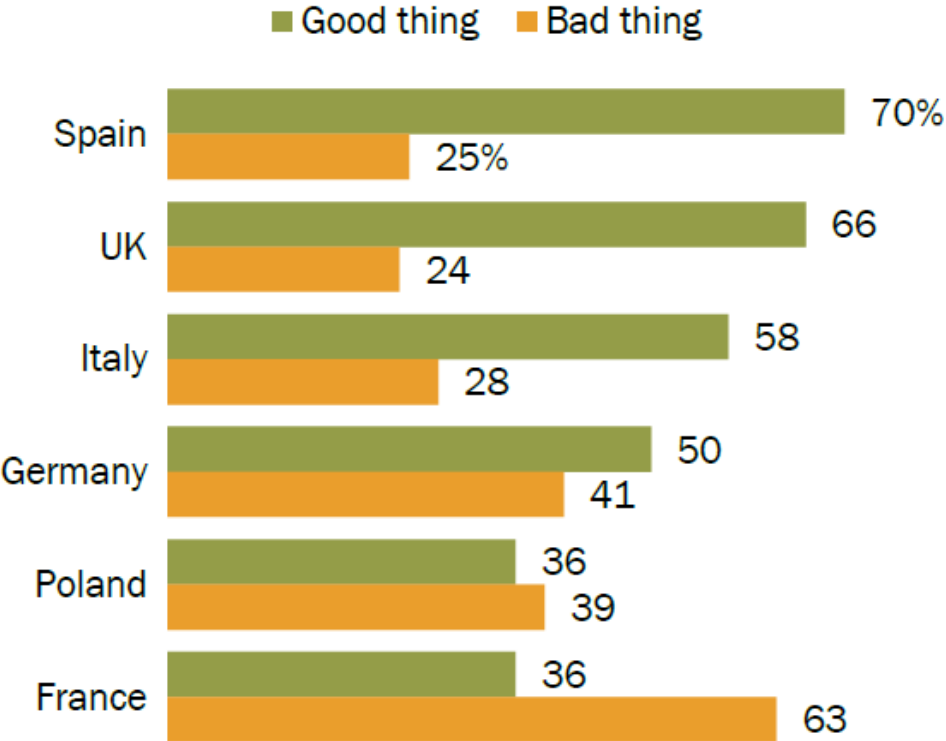
Percentages of respondents in favour of and against giving more power to the EU

	Favour	Against
Germany	47	50
France	45	55
Spain	43	53
Italy	38	50
Greece	27	71

Source: 2014 Spring Pew Global Attitudes Survey.

Most View Eurosceptic Parties as Good Thing for the Country

The rise of nation-specific nontraditional parties is a ...



Note: Asked about UK Independence Party in UK, National Front in France, Alternative for Germany in Germany, Five Star Movement in Italy, Podemos in Spain and Congress of the New Right in Poland.

Source: Spring 2015 Global Attitudes survey. Q77.

What to do?

- Abandon further fiscal integration
- Restore no-bail-out clause
- Go on with banking union
- Use banking union to handle repercussions of sovereign debt crises
- This requires new thinking in Brussels