

The Future of the EU and the EMU

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The Five Presidents' Report

Fiscal union

- More of common fiscal decisions
- Eurozone treasury
- Common stabilisation function
 - fiscal transfer system
 - aggregate eurozone fiscal stance

Banking union

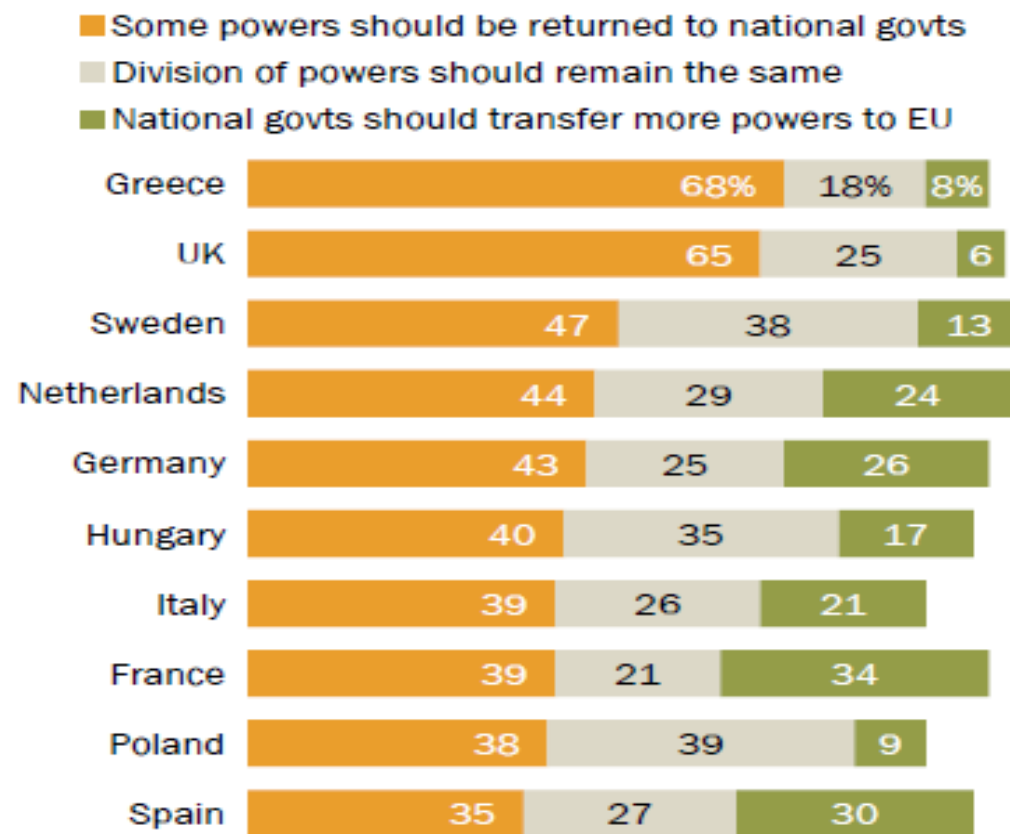
- Single Supervisory Mechanism
- Single Resolution Mechanism
- Access to credit from ESM
- European Deposit Insurance System

Fiscal union is not politically feasible

- Centralised fiscal policy decisions address the moral-hazard problems arising from the setting-aside of the no-bailout clause
- But they are not **politically feasible**
- Nor are existing fiscal rules politically feasible
- Fundamental **time inconsistency problem**
 - fiscal rules are not applied
 - no fines for Portugal and Spain
 - silk gloves for France and Italy
- Financial sanctions seem impossible to use

Disagreement on 'ever closer' union

Which statement best describes your views about the future of the European Union?



Note: Don't know responses not shown.

Source: Spring 2016 Global Attitudes Survey. Q49.

"Euroskepticism Beyond Brexit"

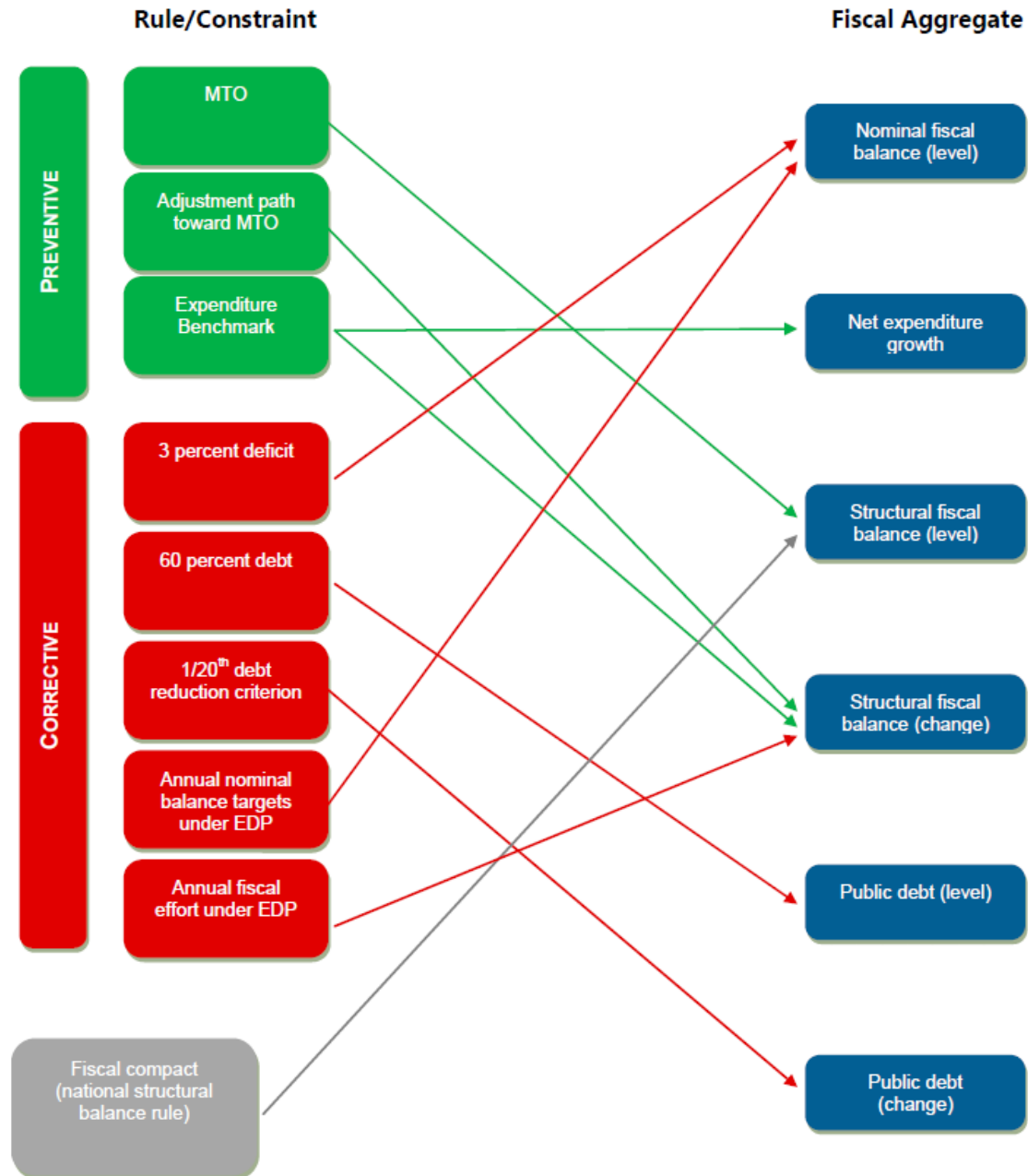
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Renationalisation of fiscal policy

- The fiscal-policy debate is mainly national
- National institutions have more legitimacy than EU institutions
- European rules should strengthen the legitimacy of national rules
 - to serve this role, European rules must be simplified
- Renationalisation of fiscal policy requires restoration of the credibility of the no-bailout clause
 - Procedure for orderly restructuring of unsustainable government debt
 - More complete banking union including exposure limits to the own sovereign's debt

Figure 3. The EU Fiscal Framework

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



Recipe for the future of EMU

- Less integration of fiscal policy
- More integration in the financial area

Reasons for Brexit

- Peculiarities of the British
 - UK is the member state with the least positive attitudes to EU at time of accession (except Sweden)
- Discontent with immigration from Eastern Europe
- Ironical result of **enlargement** which was pushed by the UK as a strategy to avoid far-reaching integration

Awkward questions

- Is public opinion not ready for free labour mobility?
- Is free labour mobility even threatening the very existence of EU?
- Do we have to accept **emergency brakes** on intra-EU migration?
 - goes against fundamental idea behind the EU
 - necessary to make the EU **survive to live another day**
 - younger voters more positive to the EU than older voters
- Caution with further enlargement
- Caution with common asylum policy

The role of EMU for the future of EU

- The **euro paradox**: Support for the euro held up when support for the EU fell during the euro crisis
- Possible interpretation: too large costs and uncertainties of abandoning the euro
- The euro may work as an insurance against leaving the EU in many countries
- Probably not necessary for Sweden