

ECONOMIC GOVERNANCE IN THE EU: CHALLENGES & PERSPECTIVES

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PHASES OF GRIEF/CRISES

- Denial mixed with shock
- Anger
- Bargaining, largely in vain
- Depression as reality dawns
- Testing and acceptance of (often difficult) solutions
- Fire-fighting
- Blame shifting
- Hyper-activity to reform governance/institutions
- Pause to rethink models
- Reaching agreement
- ...then implementing it

EXTENSIVE GOVERNANCE REFORMS

FISCAL DISCIPLINE

- Stability & growth pact
- 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

WHAT IS STILL LACKING?

- Sufficient bank resolution backstop
 - Build-up of single resolution fund & bridging mechanism
 - Earlier mutualisation of more of it
 - Yet not enough TODAY if things go wrong NOW
 - Ambivalence about resort to the ESM rescue fund
- Debt mutualisation
 - Some form of €-bonds
 - Maybe just a default or redemption mechanism
 - Agreement on timing and scope of EDIS
- A fiscal stabilisation capacity
- Return to 'normal' in many domains – not least credit

A pair of hands is shown from the bottom, cupping a large, glowing, spherical orb. The orb is bright yellow and white, radiating light. The background is a solid dark blue. The quote is centered on the orb in a bold, black, sans-serif font.

**"LOOK TO THE
FUTURE, BECAUSE
THAT IS WHERE
YOU'LL SPEND THE
REST OF YOUR
LIFE."**

- GEORGE BURNS

CHALLENGES FOR...



- Avoiding the drift to deflation
 - Finding a way to make QE work...
...without upsetting the Germans
- Maintaining financial stability
 - Ensuring that the SSM works well
 - And that banks recapitalise rapidly
 - Contributing to EDIS
- Restoring more normal lending
 - Especially in weaker EA economies
- Persuading governments to act

WHAT NEXT FOR...



- Establishing authority
 - Making EU more relevant actor
 - Solutions on UK membership
- Growth and jobs
 - The €315 bn. investment package
 - New money or new labels?
 - For what and by when?
 - Better regulation
 - Digital and energy integration
 - Responding to social tensions
- Negotiating the completion of €

WHAT NEXT FOR...



- Balancing German and EU preferences
 - Austerity first, plus structural reforms...
 - ...and only then solidarity
- Exerting pressure on France and Italy
 - While resisting their demands
 - Worrying about an unbalanced economy
- Curbing or mollifying the Bundesbank
- Deciding about those irritating Brits
- Re-election in 2017
 - Or should it be succession planning...?

WHAT NEXT FOR...



- Restoring the momentum lost since autumn 2014
 - Latest, downbeat euro plus monitor
- Managing those tricky tensions:
 - Growth, jobs, jobs and more jobs
 - Mitigating social distress
 - Improving public administration
 - Modernising the economy
- Stimulating an export sector
- Smiling at Wolfgang and Jeroen

SOME PERSPECTIVES

- The crisis phase is probably over
 - But the patient is far from resilient
- Big new steps are on the table (4/5 Presidents)
 - But are being taken far too hesitantly
- New trajectories of divergence have to be faced
 - Factors behind growth potential
 - Movements of labour (especially skilled) and capital
- We remain far from an optimal political economy

“Politics is not the art of the possible;
it consists in choosing between the
disastrous and the unpalatable”

JK Galbraith