

EZ-EU reform : a political and institutional perspective

Anne-Laure Delatte, CEPII

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Outline

An Ambiguous Decade

The Franco-German alliance

New Momentum

Brexit and President Macron

Loads of reforms on the agenda

Tensions between two models of integration

But high heterogeneity costs

Conclusion

What we need

Decline of French influence since 2007

- ▶ The crisis has turned France into a secondary player
 - ▶ Difficult for France to claim a role of co-equal leader of the European project
 - ▶ Who is able to finance the series of bailouts ?
- ▶ From cooperation to hierarchical relationship : German leads, France follows
- ▶ France is relegated to soften the edges of an austere currency union

Germany : the reluctant leader

- ▶ Germany has actively engaged on all fronts and has been the most important member of the resolution team
- ▶ However moral hazard obsession
 - ▶ Reluctance to fund or favor quick and forceful commitments to regional bailouts / strong interventions by the ECB
- ▶ Germany has managed to both help resolve and exacerbate the crisis (contagion).

The Franco-German alliance

- ▶ The traditional balance of power among Europe's major states shifted dramatically during the crisis
- ▶ The traditional Franco-German engine of European integration sputtered

No walking backwards



New momentum

- ▶ Brexit

1. No more UK feet dragging
2. Shock theory : unless real progress, the whole EU project may sink.

- ▶ Macron election

1. First victory against populist firsters
2. Phoenix hopes that the Franco-German alliance will reboot. cf Merkel-Macron versus Trump during G7 meeting

Institutional initiatives

- ▶ EC Reflection paper "Deepening the Economic and Monetary Union", May 2017
- ▶ "Europe's political spring", Vox proposals, June 2017
 1. Small budget at the Eurozone level to provide macro stabilization, Funds for investment projects (ESI funds).
 2. Fault line : Problems with high levels of legacy public debt, structural rigidities in some countries makes solidarity problematic.
 3. Fiscal Union is taboo. Macron is very pragmatic. Not reproduce the mistakes of former Pr. Hollande

Tensions between two models of integration

Founding Fathers : need to coordinate local/ domestic interests =
Double governance

1. National : Inter-governmentalism
2. Supranationalism

The last Decade

- ▶ Inter-governmental management of the crisis : ESM (lending capacity of EUR 500 billion), TSCG
- ▶ Rise of supranational rules and institutions : ECB and super Mario, EBI and the Juncker Plan, EBA, ESMA

A typical European problem

- ▶ The US were similar. Hamilton. But Constitution creates the framework for economic institutions (Hamilton/ Jefferson)
- ▶ In Europe we created economic institutions before constitution.

Heterogeneity costs

- ▶ High heterogeneity costs arising from diverse preferences across populations
- ▶ High costs become politically prohibitive : fiscal and political union.
- ▶ Overoptimistic expectation that inefficiencies can always be addressed

Why have heterogeneity costs and constraints become binding? A political economy analysis

Follesdal and Hix (2009) answer to Majone and Moravcsik (2009) is revealing

- ▶ No positions for rival set of leadership and rival policy agenda
- ▶ EU can adopt policies not supported by a majority of citizens
- ▶ The policy process is fundamentally based on rules rather than political

European governance fault lines

- ▶ The EC is neither a government nor a bureaucracy
- ▶ The Council is part legislature, part executive, and when acting as a legislature makes most of its decisions in secret
- ▶ No distinction between political and regulatory functions of the Commission makes the content of its policies not contestable
- ▶ Despite the co-decision procedure, a majority of EU legislation still passed under the consultation procedure.

In conclusion : What we need...

- ▶ Model of union that transcends the either-or logic of integration or sovereignty
- ▶ Provide decision-making capacity without relocating power from democratic nation-states to a less democratic supranational level
- ▶ Parliament of the euro zone
- ▶ Constitution ?

... is politics...

- ▶ "It is absurd to expect in the long run that you can maintain economic and monetary union without political union."
German Helmut Kohl, 1991.

