



# *The Euro and the battle of ideas:* **Discussion**

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# Bridging different positions

Solidarity



Discipline

Short-term  
response



Long term reform

Discretion



Rules

Demand  
(cyclical/macro)



Supply (potential  
growth struct. ref.)

Maintaining  
sovereignty



Political Union

All MS (symmetric  
adjustment)



Only vulnerable  
MS  
(asymmetric  
adjustment)

Secondary law



Treaty changes

Community  
framework



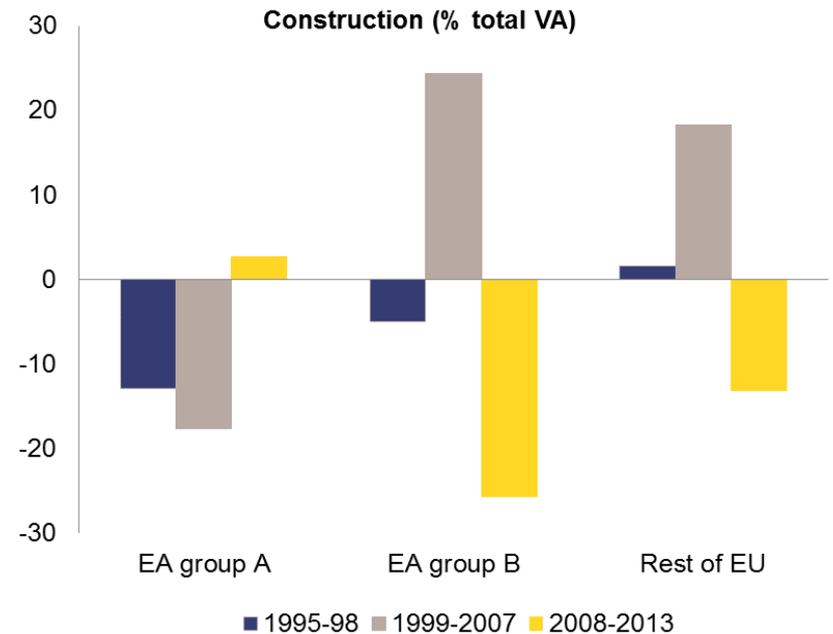
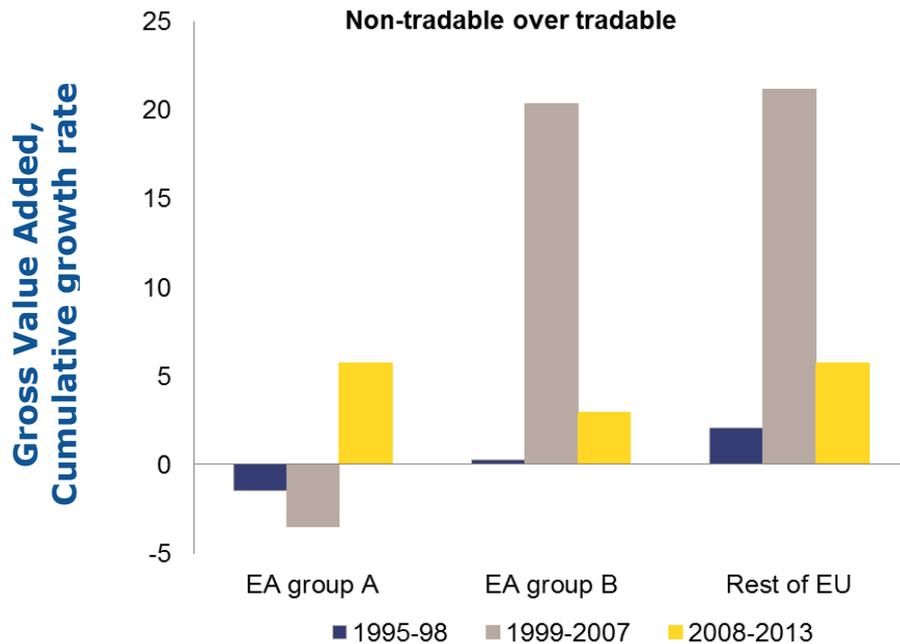
Inter-  
governmental

Euro Area



European Union

# Different preferences heightened during EMU first 10 years



Note: Note: countries grouped according to their external position.

EA group A: BE DE LU NL AT FI EA; EA group B: EE IE EL ES FR IT CY LV LT MT PT SI SK; Rest of EU DK HR SE UK BG CZ HU PL RO.

# Was the European Commission as absent during the crisis as the book states?

- Yes, shift towards intergovernmentalism was palpable
  - "Crisis response is a Chefsache"
- But Commission was not absent
  - 2009: coordination of stimulus package
  - 2010: EFSM (vs. EFSF)
  - 2012: Banking union
  - 2012: Blueprint for EMU deepening
- Not by chance the ECB emerged as the key actor

# Differences of opinions contributed to the "*Ultima Ratio*" Logic

**DENIAL**

"It's an American crisis, not an EA one"



**PUT YOUR HOUSE IN ORDER**

"Correct fiscal profligacy in peripheral countries"



**ACKNOWLEDGEMENT OF A COLLECTIVE PROBLEM, BUT TOO LITTLE TOO LATE**

Greek Loan Facility



**BOLD SOLUTIONS FACING THE ABYSS**

ESM, BU  
"Whatever it takes"



**BACKTRACKING WHEN SITUATION IMPROVES**

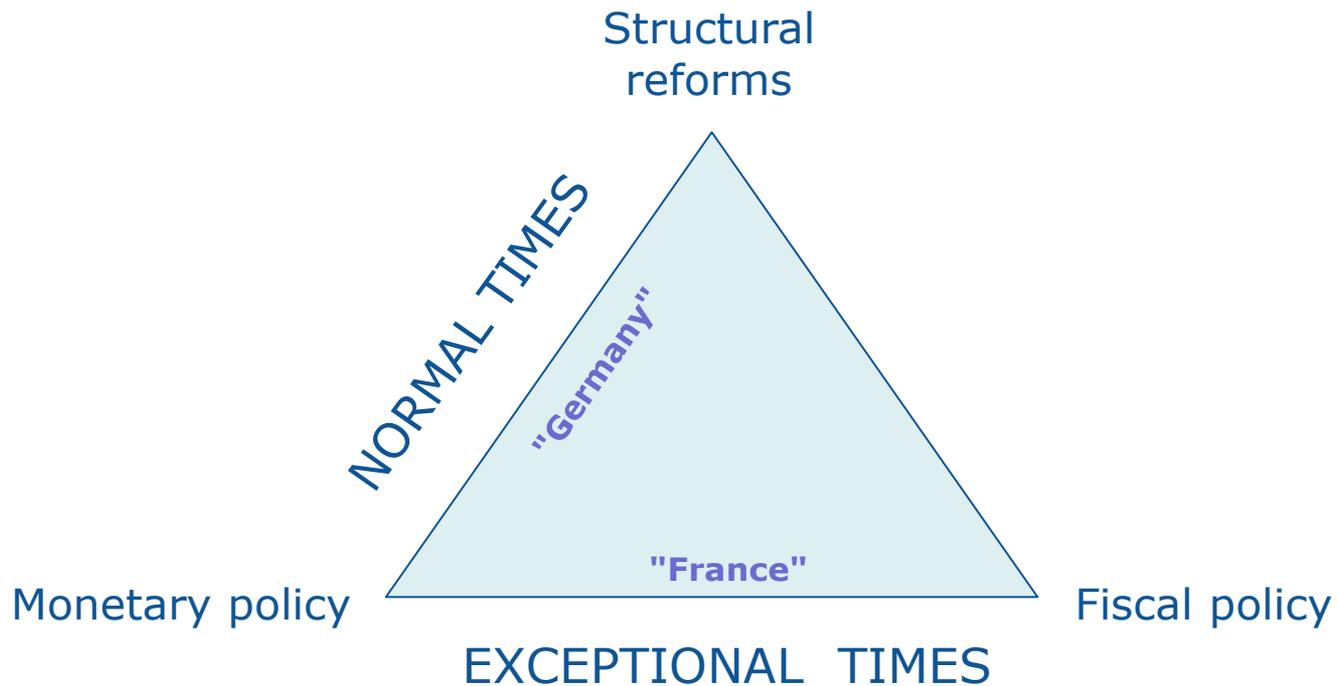
Current phase?

# Agreeing on a shared narrative of the crisis

- The EA crisis was NOT a fiscal crisis (apart from Greece), but lack of fiscal space hindered the policy response during the crisis
- The EA crisis was a "sudden stop" crisis following capital misallocation in pre-crisis years
- Structural divergence fed divergence in social and political preferences, giving rise to mistrust
- Way forward requires meeting in the middle via a parallel process of risk reduction and risk sharing

→ *The authors don't stick their neck out*

# Different approaches fit for different circumstances

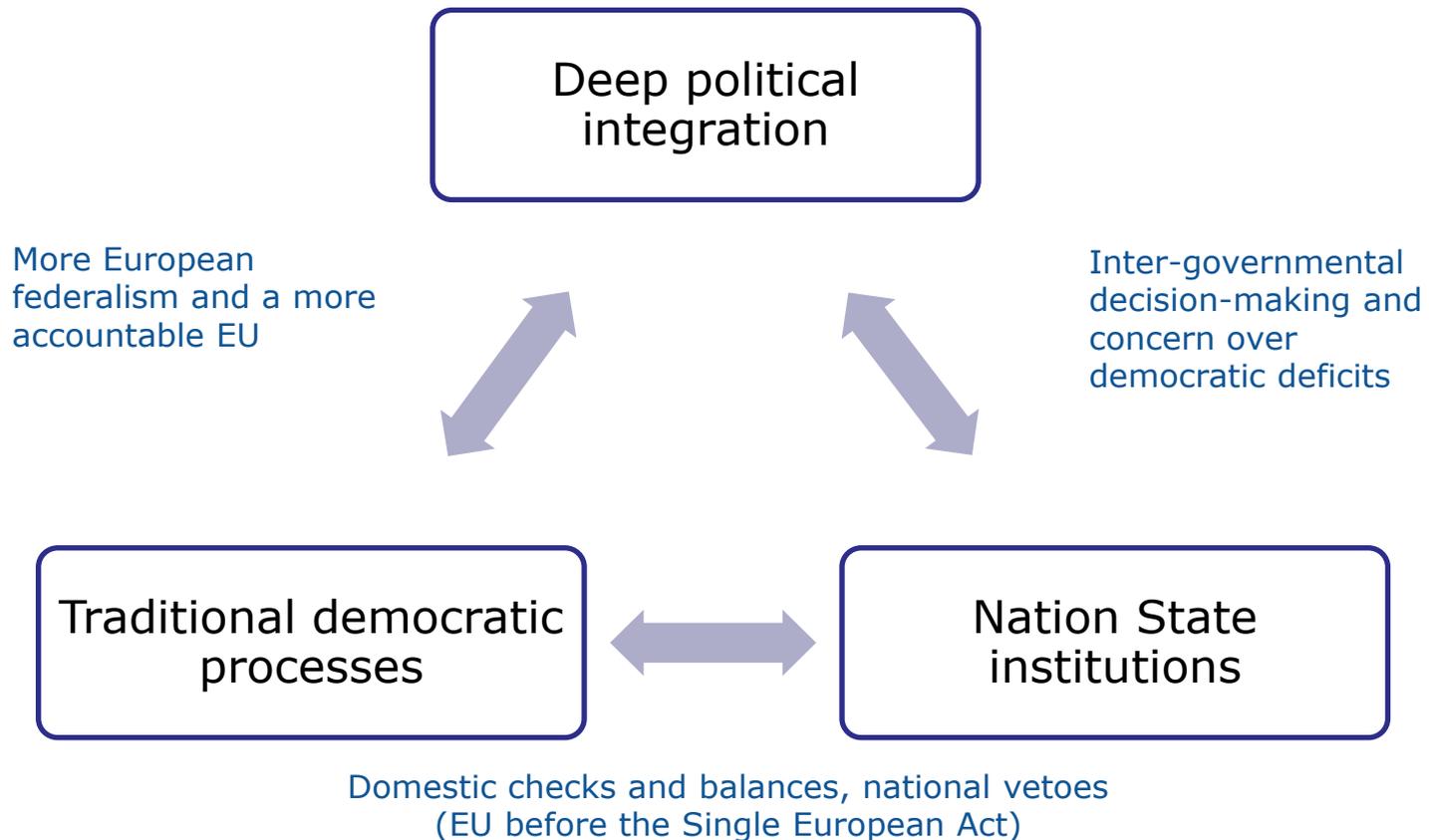


# Bridging differences: Parallel progress on risk sharing and risk reduction

An economic logic to address transitions

- SGP enforcement at national level can be more efficient and more legitimate if completed with a central risk sharing tool
- More private risk sharing (via BU and CMU) allows less fiscal risk sharing
- More fiscal risk sharing prevents overburdening the ECB

# Overcoming political inconsistencies



# Principles for a consensus step forward

- Agree on identification of European public goods
- Define common methodology:
  - *Ex ante policies to prevent reoccurrence of the risk*
  - *Possible backstops if the risk materialises – including during transition to the new steady state*
  - *Accountable institution entrusted with a mandate*
- EA public goods are macroeconomic in nature
- Migration, defence, EMU: a "grand bargain" in so many varied policy branches needs to preserve consistency within each branch

## Avoid "words that work for all"

*"[...] a compromise not in the sense that member states resolved their differences by meeting each other on intermediate positions, but rather they agreed on documents which they felt left them free to continue to push for their own preference."*

A. Szász on the Werner report (1970)

→ move away from intergovernmentalism

# Questions for discussion on the book

- Is the German economic thinking behind EA integration different from that behind *domestic* federalism?
- Are compromises between antagonistic views always virtuous, or can a compromise be worse than the situation before?
- Is it possible to build a "grand bargain" composed of completely different policies (e.g. migration + defence + EA) without losing the inner consistency within each policy block?