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European Union

A new phase of economic governance?

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The European Union, after several serious economic, geopolitical and institutional upheavals, whose consequences are not at an end, and after a period of blockade and paralysis, may be moving to a new phase of revision of its model of economic governance. The institutional paralysis of the EU, in terms of the financial capacity of those institutions at least, could be to some extent unblocked after the settling of some unknowns, with what may be a soft Brexit and with the foreseeable formation of a CDU-SPD government in Germany.

The formation of "extreme centre" governments (to use Tariq Ali's phrase) representing, with new formations or coalitions, the shared nucleus of political orientation by neoliberal and social-liberal parties that have been supporting the European political regimes of the last thirty years, in a scenario of temporary cushioning of the economic crisis, could lead to the modification of the existing economic and institutional architecture. This could reorient, among other elements of economic governance, the resources of the European Union, which today are meagre in comparison to those available to the member states, ridiculous for any significant fiscal policy, and, for example, far below the already modest, in relative terms, US public budget, towards a more consistent policy as regards the capacity to demand structural adjustment measures. In order to strengthen the fiscal discipline policies, means would be promoted - in any case, insufficient - for the stabilization of the financial system that could alleviate a coming banking crisis. Old structural and social investment programs would be redirected, making possible a limited counter-cyclical action in crisis-hit countries, as long as they have complied with neoliberal reforms in their economic, budgetary and spending structures.

There has been a debate among European elites, circumscribed to the institutional dimension, on the causes of the weakness of the structural and economic dynamics, which has accompanied some existential political discussions of the EU project. While the neoliberal agenda, in its different formats, blames the crisis on budgetary indiscipline and the absence of structural reforms in less competitive countries, there are others who attribute the problems to the investment crisis, financial hypertrophy, or inequality. Regardless of the diagnosis or the perspective, they all start from the fact that a new financial crisis could put the Eurozone in doubt, and a banking crisis could trigger a new and deeper recession. Those who are favourable to the current architecture of the Euro System, both the neoliberals of the extreme centre and the German ordoliberals, take the initiative to try to consolidate it, so that the EU does not fall apart and continues to serve the financial oligarchies and the European transnational corporations.

Institutional unblocking and extreme centre governments

The proposals still lack precision, but they already have a basis of resolutions that could give them institutional coverage. What had been a sounding out is closer to a proposal with concrete deadlines, 18 months, to reach some consensus among the governments leading the EU project, newly formed or to formed shortly.

France has a president, Emmanuel Macron, who represents better than few others the project of the extreme centre, which is fighting for a federalist and neoliberal revision of the EU. Meanwhile, Germany may have left behind the scenario of a Jamaica government, opening the way to a possible reissue of the grand coalition, with the CDU and the SPD. If there is no government with the FDP, who oppose any proposal of the European Monetary Fund (EMF) type, this path, even in its less ambitious version, is cleared. [1] It is in this context that the European Commission can feel supported in initiating a reform of the institutional and financial architecture of the EU. This revives a debate that has gone on, under different variants, in the last two years, based on the reports of the five presidents on the future of the EU's finances, the White Paper on the future of the EU, which called for further deepening in the Economic and Monetary Union, or what had also been discussed in the European Parliament on the budgetary capacity for the Eurozone.

The elite debate on the European Monetary Fund

The debate on the fiscal or budgetary capacity of the Eurozone has been taking place for some time in the European institutions, with different approaches, which does not prevent them from having many common vectors. The Macron project expresses one of those aspects, different from Merkel's German project. Both the federalist-technocratic-neoliberal side of the former, and the more ordoliberal option of the latter, opt for financial stability- a euphemism to hide the priority of protecting the financial system - providing the European budget with a financial instrument that would give it greater capacity.

The substantial difference between the federalist-technocratic variant and that embodied by Schauble, proposed to be chair of the Bundestag, is that the neoliberal federalists plan to establish compensation mechanisms such as a European deposit fund or an unemployment benefit system at the scale of the EU, or have a margin to borrow, and an instrument that would promote investment, subject to the logic of competitiveness. The European People's Party has strongly opposed direct indebtedness and European unemployment insurance and would maintain serious doubts about a deposit fund, as would the central European governments. [2] The departure of Schauble from the German government may have helped to unblock this, even though finally his political line has in the main been asserted. Unemployment insurance is not considered in the proposal, but the deposit fund is. But the European deposit fund could also be endangered if the German SPD, in agreeing to govern or support the CDU, do not force the arm of the latter concerning the proposals that Germany will bring to the European institutions.

The CDU would agree with an instrument that contributes to fiscal stability in a single currency environment, without resorting to internal transfers that, in the view of the establishment, would imply some kind of redistribution, since for them this would reduce the moral hazard for what, according to the Central European stereotype, are poorly disciplined countries.

This European Monetary Fund (EMF), with a great capacity for leveraging and financing, up to 500 million euros, being backed by guarantees from the states (and who pays, commands). It would have various capacities to lend to countries at systemic banking risk and would be able to discipline them. to ensure a policy of austerity in accordance with the spirit of the Stability and Growth Pact. The logic of this pact, already part of the treaties, would therefore not have an intergovernmental status but a greater capacity for legislative obligation. Until now it has been irregular or poorly fulfilled, but now the EMF will be the mechanism to apply austerity policies more effectively.

The proposals of the European Commission

The European Commission has proposed a “road map for the deepening of the Economic and Monetary Union”, which gives development and continuity to the agenda of the Five Presidents' Report, to facilitate the agreement and the realization of measures, applying them before 2025. The proposals to reform the euro zone are part of a work programme that will culminate in the meeting of heads of state and government in June 2018.

– The first and most notable proposal is the establishment of a European Monetary Fund, which would be anchored within the legal framework of the Treaties and which would be built on the basis of the existing European Stability Mechanism (ESM). The EMF will assist member states in situations of financial difficulty. It would also be a support mechanism for the Single Banking Resolution Fund, which could receive 55 billion euros in 2023, and would act as a lender of last resort to facilitate orderly resolutions of insolvent banks. It will not mean an increase in additional financial efforts, but rather it takes advantage of the resources of the ESM. As a financial instrument, it is endowed with public guarantees provided by the member states that would support the issuing of bonds with the financial capacity to lend.

– It is proposed, therefore, that this budgetary instrument for the Eurozone should operate to support member states in their structural reforms, for those who are in processes of access to the Euro, or as support for the Banking Union, and as a stabilizing mechanism of investments in case of short-term crises.

– The reform package proposes a partial conversion, at least 6% as a reserve, of the European Structural and Investment Funds, establishing common rules applicable to the Regional Development Funds, the European Social Fund, and the European Agricultural Fund for Rural Development, coordinating them to support structural reforms in the spirit of the European Semester, that is, policies subject to structural adjustment. The support programme for structural reforms for 2019 and 2020 will be extended to almost 223 million euros, almost doubling it.

– The Commission proposes in this sense a “fiscal stabilization instrument”. The idea is that it can support countries in crisis and with little margin to maintain investments. The idea is that this instrument offers loans or guarantees with funds from the Community budget or through the future European Monetary Fund, although only for those countries thatdo not exceed the usual 3% public deficit.

– A European Minister of Economy and Finance is proposed in the governing bodies, who would also be Vice-president of the Commission and president of the Eurogroup, a true economic government of Europe, now governed by the European Treaties.

Conclusions and alternatives

Through a reordering of pre-existing institutional resources and instruments, the EU's economic governance is once again entrusted to sophisticated financial instruments. [3] The EMF is a mechanism that enhances the financial capacity of the European institutions, but in exchange for imposing fiscal discipline while also involving a very powerful vehicle of debt socialization. The EMF would represent, in short, a financial whip that aims to govern us all.

Until recently, the mechanisms of misalignment of income and expenditure, as well as the division of the budget or public spending effort, explained the conversion of the huge private debt into a public one. Now, as was seen in the Greek case, the European institutions promote a fund with a mechanism that loads the taxpayers with the effort and risk, since the guarantees are funds nurtured by public resources. Thus, public resources, in the form of public guarantees, endow an instrument that is intended to be a firewall and be used for a systemic banking crisis.

In other words, if this fund is lent to a state, it will mediate to promote restructuring of the banking system, which will be partially borne (8% of the liabilities) by shareholders or creditors, but which will possibly require a complementary contribution and public loss. Although, the average taxpayer suffers from four angles, because the guarantees are public -and lost in the case of failed operations- and originate mainly from their tax contribution; because there may be public rescue costs; because the public policies into which the country will be forced will be under the auspices of adjustment policies in the area of wages, social rights and public policies, privatizations and so on; and because the state requesting the loan will contract a debt with interest that will also have to be honoured.

In the event of a bank insolvency crisis, the Banking Union plans to begin with bail-in measures, that is, a bank's crisis will be charged to shareholders and creditors. This will surely happen first in the peripheries, with the Italian banks possibly being the first case. The model foreseen by the European institutions predicts that these would be punctual situations. There are reasonable foundations in the medium term to think that its impact could be more extensive and serious, but this analysis would require a separate article.

This mechanism of bank restructuring in the periphery would provide an instrument, ultimately, for possible systemic banking crises of greater magnitude. That is to say, it facilitates bank restructuring in the periphery, it is endowed with an instrument of discipline over entire countries, and it would be able to cover the risks of a banking solvency crisis in the centre of Europe, at the cost of the citizens. This is their "well-known stability of the euro zone", equivalent to the stability of the banking system.

A possible alternative policy would consist of combining two mechanisms that simultaneously involve redistribution and promotion of a socio-ecological investment plan capable of making the change to a productive model based on renewable energies and minimizing the use of raw materials and fossil fuels to adequately satisfy social needs.

The first would be to have an alternative budget, better endowed with income, which should progressively reach at least 8% of the Community GNP (a basis to minimize the enormous failures of a market economy), with a progressive fiscal regime, supported by the economic capacity of the countries, with progressive contributions based on their production, and with new taxes that are charged mainly on corporate profits and the assets of the wealthy, or with taxes imposed on short-term financial transactions, and a solid crackdown on tax evasion, which entails the prerequisite of an upward fiscal harmonization, beginning with substantial effective minimum rates.

This has to be accompanied by mechanisms of redistributive spending and a large endowment for investment aimed at changing the productive model and creating jobs, prioritizing tasks in relation to ecological transition. The second, complementary (and of course not in the first place, as is claimed by the conservative forces), a mechanism of mutualised financing capable of funding public investment in socially necessary areas and in environmentally sustainable activities that is also a vehicle of democratic redistribution. [4] The question that we face is whether anything like this fits in the current institutions, given the condition of blockage represented by the rule of unanimity and the coalition of countries that dominate the Eurogroup and the Council, within the framework of an institutional framework and Treaties that consecrate policies of austerity, without a hint of their modification.

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[1] The FDP wanted to apply an austerity as severe as that envisaged by the former finance minister, Schauble, but without allowing a fund which would commit the stronger countries to contribute money as a guarantee, giving free course to the automatic adjustment mechanisms of the market, that is without any macroeconomic financial mechanism like the EMF.

[2] Although the provision of guarantees is a form of assumption of potential debt because they assume the risk incurred when issuing bonds that endow the fund with its financial capacity. These guarantees would socialize losses giving coverage to the privatization of investors' profits.

[3] Among them the Strategic Investment Plan, the Foreign Investment Plan, multiple Trust Funds, or what was already the European Stability Mechanism and will now become part of the European Monetary Fund. All of them are based on financing formulas that are based on lending based on a fund, which is itself funded by issuing bonds which are purchased by private investors backed by public guarantees. This fund, unlike a classic public budget, is not funded by taxes and thus provides resources for spending or direct public investment, but as a loan mechanism.

[4] The idea of mutualizing debt is not new, and the left has led in this, but with a very different purpose than socializing private debts at the expense of the population. Instead, the idea was to provide financial resources to cope with cycles, facilitate redistribution mechanisms, and provide debt relief in some countries counting on the solidarity of others, while at the same time providing a mechanism of public financing of

investment. This proposal, coherent and viable, is not only inadmissible within the Treaties and the governance architecture of the EU, but seems unfeasible for the planned political structure, which will be a shield against any progressive reform. It also faces the obstinate opposition of the transnational elites and the central European governments, which, in addition, count on the submission of the ruling classes of the semi-peripheries and the majority of their governments.