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The Economic Crisis and Governance in the European Union

A critical assessment

Edited by
Javier Bilbao-Ubillos

ROUTLEDGE


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The Economic Crisis and Governance in the European Union

This book explores the way in which the financial crisis that began in the US spread to the economy of the European Union. It takes a critical look at the measures adopted by EU institutions in response to that crisis, seeking to explain the rationale behind them, their context, their development and why different exit strategies were not adopted. In doing this, the book makes comparisons with the measures adopted by institutions in the US and the UK.

As the crisis has shown that the financial supervision frameworks prevailing in 2007 were not fully able to deal with the largest financial crisis in history, this volume also reviews the proposals that have been designed to reform the supervisory architecture of financial services in the EU.

The book concludes that the EU member states under most pressure from financial markets do suffer from intrinsic problems, but that the economic effects of the crisis have been exacerbated by shortcomings in economic governance within the EU.

This work will be highly relevant to policy makers and scholars looking at EU integration, finance and market regulation.

Javier Bilbao-Ubillos is Senior Lecturer in the Department of Applied Economics at the University of the Basque Country, Spain.

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A critical assessment
Edited by Javier Bilbao-Ubillos

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1 Introduction

Javier Bilbao-Ubillos

The governance of the economic crisis in Europe has become a topic of undoubted current interest. There are two main reasons for this:

- On one hand, the economies of Europe are facing a crisis of a magnitude and complexity not seen for decades: most European Union (EU) Member States have slipped back into recession in the first quarter of 2013 without having recovered from the major shrinkage that they suffered in 2009. The effects of the credit crunch can still be felt in matters such as access to funding¹ and problems in the balance-sheets of banks; and what looked like the certain break-up of the euro has barely been avoided, with some countries suffering a sovereign debt crisis and Cyprus hovering on the brink of abandoning the common currency in March 2013.
- On the other hand, Member States have been unable on this occasion to make fully autonomous use (at national level) of a number of conventional economic policy instruments that would have helped them to tackle the recession. These constraints have affected members of the Eurozone in particular (countries which not only have no individual monetary and exchange policies but have also lost part of their freedom to manage their own fiscal policies).

Thus, progress towards European integration has meant that the Member States of the EU as a whole are having to face up to the economic and financial crisis with no possibility of resorting to trade policies and with fiscal policies subject to a number of constraints that have recently been exacerbated in the formulation of the new Stability and Growth Pact (SGP) and the entry into force of the Treaty on Stability, Coordination and Governance (TSCG) for all countries in the EU-27 except the United Kingdom and the Czech Republic. But Eurozone members no longer have the option of resorting to changing their exchange rates and interest rates (methods that have traditionally proved useful in economies suffering from asymmetric shocks).

Until now, the consequences of handing over authority for economic policy to supranational EU bodies had never been tested under adverse circumstances. In this sense, the current crisis has posed an enormous challenge to the architecture of economic governance designed in the EU, which seems not to have

worked as dynamically or effectively as necessary: hence the topicality and interest of the study undertaken in this book.

With this in mind, the book is divided into two main parts:

- Part I focuses on the roots and structural weaknesses that have proved conducive to the propagation and, above all, duration of the economic crisis in the European Union, where its impact has been felt for longer than in other institutional contexts. Some of the elements that sparked the current situation can be found in the very institutional design and construction of European Monetary Union (EMU). The authors of the Delors Report of 1989 (which provided the basis for the drawing up of the Treaty of European Union in those points concerned with EMU) were aware that the future monetary union could not be provided with a mechanism for the transfer of public resources, and that it would be difficult to achieve enough labour mobility and price/wage flexibility to tackle an asymmetric shock (García-Durán and Millet 2012: 114). As pointed out by Bergsten (2012: 110), Europe embarked on a broad, but incomplete, process of monetary union backed by the euro and the European Central Bank (ECB); but the process included practically no economic union (e.g. no fiscal or banking union), no institutions for sharing economic governance and no effective co-ordination of structural economic policies. But besides this, Part I analyses specifically the model of economic growth of the preceding decades, the different financial supervision architectures, the institutional framework of the Eurozone in terms of attaining short-term macroeconomic policy objectives, and the way in which decision-making processes are regulated.
- Part II examines the praxis of economic governance as actually carried out in the EU during the management of the economic crisis, and takes a critical look at the dysfunctions that have led to its disappointing economic results. To that end it looks at the economic policy guidelines that have prevailed in the strategies drawn up for exiting the crisis, at the effectiveness of the decisions made by the EU and at the way in which the debt and banking crises have been handled. It also examines what some authors have called “conflicts between national interests” (Comín 2012: 37): it is argued that such conflicts may have given rise to asymmetries in the capacity for political influence in joint decision-making and in the possibility of adapting the “rules of play” to the needs of each country.

The chapters that make up the two parts have been put together as follows: Part I, which is clearly focused on the historical development of the process of European integration, looks mainly at institutional points and at matters of context in the formulation of economic policies, including the distribution of authority among Community bodies and national institutions. Accordingly, the four chapters in Part I are set out as follows:

- Chapter 2 analyses the model of economic growth of the preceding decades, paying particular attention to the changes made in the theories of economic