

# **European economic governance: Consequences of the crisis**

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# ***End of an era***

- **Crisis marks the end of an era characterized by economic liberalization, with financial markets acting as spearhead of globalization**
- **Policy integration lagging behind market integration in the EU**
- **Political and social consequences of the crisis only beginning to unfold**

# ***Crisis has revealed weaknesses of European economic governance***

- **Ineffectiveness of financial regulation**
- **Inadequacy of coordination procedures**
- **Gaps in surveillance mechanism**
- **Absence of lender-of-last-resort capacity**

# ***Dangers lying ahead***

- **Unsustainable public deficits/debts; Greek debt crisis as a precursor of things to come?**
- **Vicious circle of deficit reducing measures and negative growth: deep and prolonged recessions**
- **Political and/or social instability**
- **Widening of divergence of national economic trends and unsustainable external imbalances**

***Danger of implosion in the eurozone?  
Avoid repetition of the EMS experience.***

# ***What is needed (1)***

***Strengthen the 'E' dimension of EMU***

***... and the 'P' that is not there ('P' stands for Political)***

**Concretely:**

- **Closer and increasingly binding coordination of national economic policies with incentives and sanctions built-in**

***But who sets the priorities? Old problem of (a)symmetry between surplus and deficit countries***

- **More common and more effective coordination of financial regulation; measures to control casino practices in financial markets**

***What kind of regulation?***

***Tax on financial transactions?***

- **Effective surveillance mechanism**

***Strengthen powers of the European Commission***

# ***What is needed (2)***

- **Lender of last resort capacity**

***Ad hoc arrangements; what kind of conditions attached?  
EMF only as a medium-term goal; treaty revision***

- **Single representation in international institutions and international fora**

***Starting with the IMF...***

- **Closer involvement of heads of government in governance of the eurozone**

***Eurozone summits***

# ***Can we do it?***

- **Are we politically ready for the next stage of EMU?**
- **Can or should it be part of a new European package deal, including:**
  - ***strengthening of the internal market***
  - ***transition to low carbon economy***
  - ***coordination of tax policies***

***And what if we are not ready....***

***??????***