

Future of economic policies in the EU

Informal ECOFIN, September 9, 2016

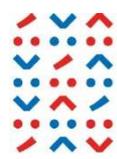
The European Union has faced a host of crises over the last several years. While the European project has historically achieved some of its biggest successes in times of struggle, some observers say that this time is different. It is argued that the EU has never before stood in front of so many diverse challenges for such an extended time period. Against this background, EU Finance Ministers are invited to exchange views on what they consider to be the most pressing ECOFIN related issues that the Union is presently facing and what role the ECOFIN Council should play in addressing them.

In 2007/2008, the global financial crisis found its way into the European financial system. Banking sector indebtedness and a significant interdependence of the EU financial infrastructure resulted in a series of hefty government interventions to stabilize the financial system. This, accompanied by swollen public sector balance sheets in several countries gradually turned into a sovereign debt crisis. At several points in time, the market confidence in the integrity of the euro area itself dropped to unprecedented levels. While the situation did not lead to disintegration, an exit from the currency union was uncomfortably close. This raises the question whether the current institutional framework is appropriate for an effective economic policy coordination, notably for as highly interdependent economic structure as the EMU.

One ought to acknowledge that much has been done since the financial crisis. Construction of the financial safety nets and of the Banking union, including the common supervision, resolution and macro-prudential framework, as well as the strengthening of the economic and fiscal framework, are significant achievements. But while EU policy makers succeeded in stabilizing the situation and avoiding the worst possible scenario, the economic, political and social costs were significant. Several policy developments, from bank bailouts to bank bail-in rules, from Member States financial assistance programmes and fiscal consolidation strategies to fiscal flexibility, from unorthodox monetary policies to EMU deepening, have been opposed by significant parts of the European public. As a result, the EU, the euro area and European institutions started to be seen as a source of the crisis rather than a part of the solution.

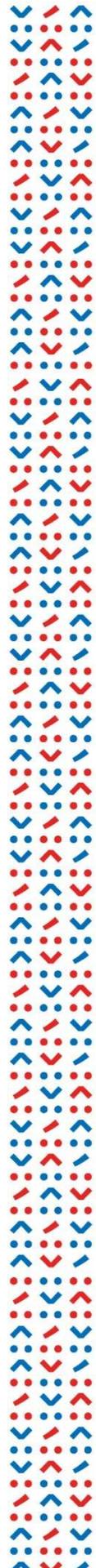
An important challenge in development of policy answers was the relation between the euro area ins and outs. Most stakeholders will acknowledge the significant efforts that went into deepening the euro area integration in a transparent and inclusive manner. Nevertheless, the process led to some concerns about the future relationship between those inside the currency block and those who have not joined it. A currency union by definition warrants a faster and deeper policy integration, but it is fundamental to ensure the coherence of the EU28. A mutually agreeable arrangement between all the EU Member States is of paramount importance for the future success of the EU and euro area and the particularities of this arrangement certainly deserve the attention of Finance Ministers.

In the still fragile state of economic and financial affairs, new existential challenges caught the EU unprepared. Firstly, the recent refugee and migration inflows into Europe



Presidency Issues note

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surprised many not only by their scale but also by the difficulties the EU leaders and policy makers encountered in designing an effective and timely response. The lack of mutual understanding and common policy approach resulted in further political fragmentation, along new lines. Secondly, security risks have risen in the EU's backyard as well as internally in the form of a new wave of terrorist activities. Thirdly, perhaps the greatest challenge was generated by the British referendum on June 23rd, in which a population of an EU Member State for the first time in history voted to leave the EU. Lastly, the rising popularity of populists, extremists and Eurosceptics around Europe poses risks to the European project of its own. Overcoming these challenges, together, is of paramount importance for the future success of the EU as well as the euro area.

A lack of a shared, coherent narrative has been the common feature associated with all the crises described above. Beyond more natural disagreements related to the identification of appropriate policy responses, views regarding the root causes of these crises have often also diverged. In addition, Member States could sometimes not agree whether the key issues at stake would be best addressed at European or at the national level. Intensified consensus building about a common political narrative is essential against such a background. EU Member States and institutions are standing at a crossroad. While the EU represents the most successful integration project in the modern, peacetime history, the scale of present challenges appears unparalleled. Addressing them successfully will be all the more difficult, unless we clearly identify where the European project stands today and where we want it to be in 10 years' time.

The primary domain of the ECOFIN Council has traditionally been the coordination of economic, financial and fiscal policies. The new wave of crises, though largely outside the traditional scope of the ECOFIN Council, will also require an attention of EU Finance Ministers. In some cases, such as the fight against terrorism, the ECOFIN Council already established the relevant scope of competence. In others, like the migration and refugee crisis, the role of this Council formation should soon become more apparent with the envisaged introduction of the proposal for the External Investment Plan. Still, other areas may also require a stronger contribution from EU Finance Ministers, e.g. efforts to regain public support for the EU or responses to rising calls for exits from the euro area or the EU, including the exit that has already been politically launched.

Issues for discussion

- What lessons can be drawn from policy responses to recent crisis situations and how can they help us in addressing the present and future challenges?
- What role should EU Finance Ministers play in responding to the main current challenges, including issues outside the usual scope of the ECOFIN Council, such as increased migration and refugee flows or heightened security risks?
- What principles should a mutually agreeable arrangement between the euro area ins and outs be based on?
- What can EU Finance Ministers do to address the EU's emerging loss of credibility and revive public support for the EU?