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ABSTRACT

The paper acknowledges the endogenous nature of the European crisis, due to the lack of efficacy in collective action of the current system of economic governance in the EU. It further outlines some key points concerning an enhanced cooperation among a core group of Eurozone countries, so that a viable, common budgetary policy may be possible, in order to provide public goods such as transport and communication infrastructures, energy, innovation. The paper concludes sketching a political scenario for such change.

KEYWORDS: European crisis, economic governance in the EU, federalism

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Introduction

The European Union has a mixed nature (Blankart, 2007), which makes it a *process*, more than a *stable structure*. It is not merely a confederative organization, as crucial competences are allocated to the supranational level (e.g. monetary policy). At the same time, it is certainly not a federation, as those supranational competences are not under full democratic control (Fontan, 2013/4), and legitimate democratic bodies do not have effective powers of making collective choices (and making them enforceable) in all relevant areas of traditional federations (Hazak, 2012, p. 44).

The economic crisis, with its endogenous nature - due to the shortcomings of the economic and political governance that characterizes the EU, and in particular the euro-area - has shown that a dramatic reform of both decision-making and institutions is urgent. Documents and debates on the shortcomings of the EU governance point at the need to define new instruments in order to ignite a process of growth. Our basic assumption is that *expansionary austerity* (Giavazzi and Pagano, 1990; Alesina and Ardagna, 2009; see also Blanchard and Leigh, 2013), which proved ineffective in the euro context, *was* and *is* the most plausible way you can design economic policy at the national level in the current structure of economic governance. It is the result, not the cause, of an inefficient system of institutions and decision-making in the Eurozone and in the whole European Union.

With hands tied in the monetary field by a supranational agent, bound by its statute to act in terms of inflation targeting, with budgetary policies constrained at national level by recession (automatic stabilizers) and high debts, and no federal budget to act as shock absorber or solidarity fund and investment fund, fiscal consolidation was the only viable strategy within the present framework of European governance, hoping that it might prove to be expansionary. Unfortunately, it proved not, as it is now widely recognized, even within the IMF (Ostry et al., 2016). Austerity did not change expectations in the *right*, but in the *wrong direction*, when firms and households considered it as a way to decrease aggregate demand and income, not a tool to decrease taxes, thus negatively impacting on expectations. Consumptions and investments therefore fell even further, rising deficit and especially the debt stock.

The dramatic events of the last few years provided a spectacular chance to change the European Union from scratch and turn this unstable and weak subject into a protagonist of the world

economy and politics. Nevertheless, until now, European governments have proved incapable to tackle the challenge, and the ECB alone has struggled for the survival of the euro and for the whole project of European integration (Torres, 2013), buying some time for European governments to make the necessary institutional changes required by this dramatic situation. Monetary policy cannot provide growth; it can only stop speculation. And when expectations are doom, the liquidity trap makes the decrease of interest rates a useless tool. Our basic claim is that Europe needs a massive programme of European-wide investments, financed not by national budgets, where there is no room left for further expenses, but through a collective effort, financed with the rationalization of competences, from the national to the federal level (profiting from economies of scale), and deficit spending at the EU level.

The main problem is that this, in the EU framework, requires changing the Treaties, and the time necessary to make such changes is incoherent with the urgency to tackle the problems we face. It is therefore necessary to enquire into two different issues. First, we need to point exactly at the major shortcomings of the economic governance in the EU; secondly, we need to understand: a) what is the most suitable structure for the euro governance within existing treaties; b) which reforms of the treaties are necessary to make the EU a stronger actor in domestic and international economics and politics and; c) how we can *sell* these solutions to governments in the present context, which is definitely not EU- friendly.

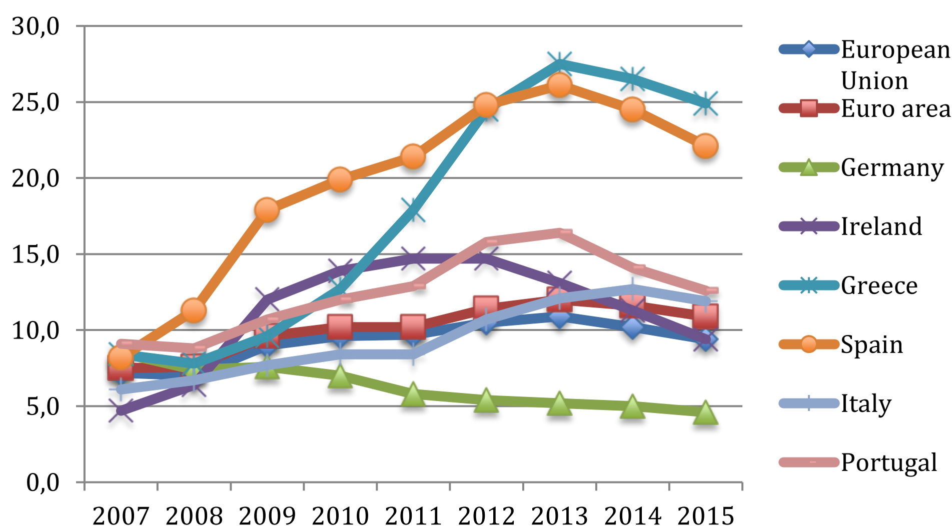
In order to illustrate these points, in the first section we shall enquire into the optimality criteria for a currency union, defining *policy optimality* as the ability to effectively satisfy individual and collective needs, and claiming that the euro-area potentially possesses these characters. In the second, we argue that a way to meet this target in the short-medium term is to work for an enhanced cooperation of the Eurozone, or a core of the Eurozone countries, pointing at the conditions to create an effective fiscal union among them. In the third section we explore further conditions for the strengthening of the EU economic governance, trying to understand what political conditions are to be met in order to *sell* these proposals to governments and citizens. The final section concludes.

1. Eurozone: Optimum Currency Area or Optimum Policy Area?

The optimality of a currency area was long considered as a quantifiable pattern of macroeconomic (later also political and social) factors against which one could test the viability or sustainability of supranational monetary integration.

Despite a long debate, dating back at least from the Sixties (Mundell, 1961; McKinnon, 1963; Kenen, 1969), both exogenous and endogenous theories of OCAs are ill-posed in the case of Eu-

rope. Europe is currently not an OCA, from (almost) none of the exogenous perspectives listed in economic theory since Mundell (1961), nor is the euro-area. Labour markets are mostly fragmented on a national basis; wage differences are ample and respond to exogenous shocks in heterogeneous ways, depending on country-specific institutional structures; cycle synchronicity has been dramatically challenged by the crisis of the Eurozone sovereign debts. Only trade openness, among the most popular criteria for optimality, is still a stable asset of the Eurozone countries. At the same time, the endogeneity of the optimality criteria (Mundell, 1973a, b; Frankel and Rose, 1998) has proved weak, if not at all wrong, exactly when it was most needed: once the euro was established, a process of macroeconomic convergence did take place among the member countries of the Eurozone, but it suddenly stopped since the crisis burst out in 2007-2008, as the following graph concerning unemployment rates shows.



Eurozone asymmetric unemployment rates trends (selection): 2007-2015. Elaboration on AMECO data.

A different, interesting perspective on the optimality of currency unions is provided by Collignon (2002), where he distinguishes “POCAs”, *Pareto Optimum Currency Areas*, and “BOCAs”, *Benthamite Optimum Currency Areas*. The difference relates to the subject to which optimality is referred. In the former case, the cost-benefit analysis of access into a currency area is worked out at the single-country level, with the usual pros (reduction of transaction costs, increase in trade opportunities, higher credibility in policy-making for countries pursuing loose monetary policies, etc) and cons (mainly the loss of sovereignty on exchange, monetary and even fiscal policies). The reference to Pareto should be clear: it is an assessment which allows Pareto-improvements, meaning that entry is only possible if *each* single country (not only the candidate one but also the others) judges that costs are less than benefits.

In the second case, the perspective is for the currency area at large. In this latter case, the entry (or exit) of each individual country is assessed considering the costs and benefits for *the whole group* of countries (hence the reference to Bentham). As Collignon (2002, p. 110) concludes: "A BOCA implies a large monetary union where anyone wishing to join can, as long as the externalised losses for others do not exceed the benefits of the participating country". This allows to make a different assessment of exogenous criteria. In this case, the optimality test, although still ex-ante, allows for more heterogeneous conclusions according to the relative scale of observation. A country-specific perspective may differ from the perspective of a *group of countries*, posing problems of legitimacy of collective choices and the nature and limits of self-determination when countries belong to a supranational community.

Although Collignon's perspectives allows for a deeper understanding of the collective action problem implied in the weakness of the euro, showing also directions for a better and more democratic approach to its governance, whatever test we may choose for currency optimality the key point is that, at present, no currency union can apparently survive in the long run without a specific institutional framework, which is manifestly not the one currently governing the European Union, given the asymmetries it generated in the last few years. This raises two questions: a) whether a different concept of optimality can be thought of, an issue we are dealing in the remaining part of this section, and; b) whether a sub-optimal currency union can last in time, and under what conditions (next section).

As concerns the first question, the starting point is the concept of sovereignty, conceived as the capacity of a collective body to provide collective goods required by its citizens. In the last few centuries, sovereignty was a prerogative of the sovereign, who gained the power to raise taxes and oblige citizens to military defend the community in exchange for collective goods such as justice, defence and an increasing range of other goods such as education, infrastructures, etc. The legitimacy of the sovereign first came from – and depended on – his ability to gain the power and provide efficiently those collective goods.

When parliamentary nation states substituted the sovereigns, what changed is that the legitimacy of governments derived by direct or indirect voting by people. This allegedly *democratic legitimacy* slowly replaced legitimation tested on the ability to effectively provide the required collective goods, and eventually substituted it.

The crucial characteristic of this *old* concept of sovereignty is that it was *absolute* and *exclusive*. Each and every collective good was provided by the nation state, in a monopolistic way. At the same time, only the national community could demand for the collective goods provided by the state. This made sovereignty a source of inherent inter-national conflicts. Individuals could be

divided into areas belonging to different sovereign powers and could only demand from their own sovereign the satisfaction of their individual and collective needs. If you are a German citizen you are *different* from a Greek citizen, and you both are supposed to be loyal to different sovereigns if you are to have your rights - as member of the community - recognized and guaranteed.

In the present context of high interdependence worldwide, exclusive national sovereignty is not only epistemologically wrong (concerning this, Ulrich Beck (1999) spoke of "methodological nationalism" in social sciences), but it is actually impossible. No single country in the world, except (maybe, and only to a certain extent) major continental powers (such as the USA, China, etc), may effectively exercise full sovereign powers over their citizens domestically.

We earlier claimed that sovereignty should be considered as the capacity of collective bodies to satisfy the needs of the members of their communities. The point is that different needs and wants are shared by very diverse groups of individuals, and can be effectively satisfied only at different levels of collective governments, from local authorities to supranational institutions. An efficient local transport system may be provided locally. The provision of sound fresh waters may have externalities requiring regional or trans-regional collective choices and bodies. An effective defence and foreign policy, secure and sustainable energy provisions, economic development and full employment (just to make a few major examples) are a common urgency for all European citizens and, moreover, cannot be efficiently provided by national policies alone. They require European collective decisions and the full capacity of European collective decision-making to make effective choices for all its citizens.

From several points of view, given the close interdependency of its members, Europe (in particular the Eurozone) is therefore an *Optimum Policy Area*, i.e. an area where policy externalities are so relevant that only a collective decision making mechanism can internalize them, thus requiring an institutional system aimed at providing collective policies. As we can see from the sheer data on unemployment for the whole EU28 and other major countries, the euro-area, and the EU at large, have performed much worse than international competitors during the crisis. The Eurozone unemployment rate was 7.6% in 2007 and became 12.0% in 2013, at the acme of crisis. In the same period, the negative performance of the EU as a whole was from 7.2 to 10.8 (a rise of 3.6); in the US from 4.6 to 7.4 (a rise of 2.8); in Japan from 3.9 to 4.0 (substantially stable). Data also show that profound asymmetries exist in the euro-area: in the same period 2007-2013, the unemployment rate raised steadily in the PIIGS (almost double in Portugal, from 8.9 to 16.5; double in Italy, from 6.1 to 12.2; a bit less than 3 times in Ireland, from 4.7 to 13.1; more than 3 times in Greece, from 8.3 to 27.3, and Spain, from 8.3 to 26.4), while it decreased

in Germany (from 8.7 to 5.3). This requires urgent policies and policymaking capacity to make investments and redistribute wealth, thus impacting on both supply and demand.

If sovereignty depends on the ability to satisfy human needs, which in turn depends on collective goods to be provided by matching collective bodies for different groupings of individuals, this poses serious challenges to the present structure of European governance, where sovereignty is neither fully exercised by supranational institutions nor by national governments. In this respect, those who argue in favour of a return to a purely confederative model for the Eurozone (each country resuming its national currency and monetary authority), if no further deepening of European integration is possible or deemed desirable, are correct.

2. Changing the economic governance in the Eurozone

If the Eurozone shows policy externalities that need to be tackled, we should concentrate on the required conditions for its long-term sustainability, which imply changing the economic governance so that it can be effective. The current institutional framework of economic governance derives from the complex mix of the following sources: the *Lisbon Treaty*, the *Six Pack*, the *Treaty of Stability, Coordination and Governance* (*Fiscal Compact*), the *Two Pack*, the *European Stability Mechanism*, the *Banking Union*. They mainly embody the instruments of the theories of expansionary austerity in a context of intergovernmental decision-making. In the short run, we can only hope to make all these instruments coherent, and include them in the Lisbon Treaty (the mid-term review this year). Despite this normative consolidation, if the nature itself of economic governance is not going to be radically changed, we may only hope that expansionary austerity may finally work. The ECB, through an extensive interpretation of its mandate, is buying time for governments to do "whatever it takes" on their side to save the European integration project. Lately, somebody has even thought of helicopter money (Torres, 2013), which would substitute for national budgetary expenses, but casting doubts on the economic and political legitimacy of such an action.

The key point requiring attention is to understand how to move from *intergovernmental governance*, resembling the logics of diplomatic negotiations, towards *supranational governance*, resembling governmental decision-making mechanisms. Until now, although acknowledging this shortcoming in terms of effectiveness of collective action, governments have progressed very slowly. The substitution of the Efsf (*European Financial Stability Facility*), instituted the May 9th 2010, with the Esm (*European Stability Mechanism*), since October 8th 2012, has provided an answer to the need of a more effective instrument. The Esm, with an equity of more than 700 billions (80 in cash), may play the role similar to a *lender of last resort* for the euro-area, with

the possibility to provide loans up to 500 billions. It can furthermore issue *stability bonds* to face special situations of crisis, as already happened with Cyprus, Greece, Ireland, Portugal and Spain.

Nevertheless, there is a long way to a fiscal union, and even more to the economic and political union envisaged by the Four/Five Presidents Reports of 2012/2015 (Van Rumpuy et al., 2012; Juncker et al., 2015). From the macroeconomic point of view, it is something closer to the banking union, since it has something to do with collective risk sharing within the euro-area. Fiscal union implies a common budget, and economic union implies a supranational Treasury to manage it. Surprisingly, given the *status quo* in which we are since years of lasting crisis, it would not be very costly in terms of Treaty changes to realize most of this.

The single point of change should be the adoption of majority rules in each collective decision. The abolition of the veto power on fundamental questions is what is required to make collective choices, otherwise impossible in a unanimity context. Veto power defends Pareto optimality, but may make it impossible to move from the *status quo*. And in times of crisis, defending the *status quo* may result counterproductive. In normal times rules may prove sufficient and even the best solution to manage economic and fiscal policies. When crisis comes, discretional, credible, and timing policies are necessary.

In order to tackle the urgent questions posed by the crisis of sovereign debts in the Eurozone, with existing treaties we can only act through an open, enhanced cooperation among euro-countries (requiring an agreement among only nine countries and a qualified majority decision within the Council; *passerelle clause* ex Art. 333 TFEU).

This should imply the European Commission to become a proper government and a subset (euro-area members) of countries in the Euro-Parliament and Council to legislate and control the executive, in order to decide on matters crucial for the citizens of the Eurozone, according to the principle of "no taxation without representation" (Majocchi, 2011: 94). As De Grauwe (2014: 20) puts it:

> "The only governance that can be sustained in the Eurozone is one where a Eurozone government backed by a European parliament acquires the power to tax and to spend. This will then also be a government that will prevail over the central bank in times of crisis and not the other way around. Put differently, the Eurozone can only be sustained if it is embedded in a fiscal and political union".

In order to embed the Eurozone "in a financial and political union", there are several questions to be addressed and steps to be taken. Some of them are of purely technical nature; some others are typically political.

The first point, crucial to the Eurozone, concerns how to provide fiscal and borrowing capacity (to the Eurozone, not necessarily to the EU at large) and how to keep a balance between solidarity and responsibility.

First of all, the Eurozone should have its own separate budget. Both the economic literature (Haug et al., 2011) and EU institutions (High Level Group on Own Resources, 2014; European Parliament, 2016) have recognized the need to enhance the budgetary capacity of the EU. Only politicians seem to be reluctant to male any step further on this. Although the debate concerning the proper dimension of the budget, dating back to the Seventies (MacDougall, 1977), crucially depends on the attributions given to the supranational institutions, there are a couple of general reflections worth underlying.

A suggested by the first report of the Monti Group: "reforming the system presents a formidable challenge" (High Level Group on Own Resources, 2014: 7). The major problems stems form the collection system, still mainly on national basis: "own resources are not 'genuine' for the most part but de facto national contributions. This criticism reflects the fact that around 83% of the Union's revenue come directly from the national budgets" (*ibid.* 13), and the report acknowledges the difficulty of any improvement: "the decision making process makes it extremely difficult to reform the system, since the 28 Member States must agree to any change." (*ibid.* 14).

Given this framework of institutional change, and acknowledging at the same time the urge to increase budgetary responsibility to the supranational level, there is only one possible short term solution: to create a specific budget for the Eurozone, or for a core of countries within the euro area that agree to step further towards integration.

The revenues should come from fiscal and borrowing capacity. As concerns fiscal capacity, it should count on its own additional resources (as already had the *Coal and Steel Community* and as envisaged by the *Four Presidents Report* of 2012 and the *Five Presidents Report* of 2015), such as 'federal' taxes, levied on some *common bads*, such as gambling, tobacco, carbon emissions, and on the financial sector (a *Financial Transaction Tax*, assuming no reduction in financial transactions in Europe, might not cast "sand in the wheels of international finance" (Tobin, 1974; 1978), but might effectively contribute to finance the European commons). The "Commission proposed the introduction of a financial transaction tax (FTT) own resource and a new VAT resource, both from 1 January 2018 at the latest" (High Level Group on Own Resources, 2014: 19). One might even think of taxes on personal income, but the whole extent and structure of the euro-area budget depends on the competencies it is assigned and this may vary according to the results of negotiations.

As concerns the borrowing capacity, Euro-project bonds have long been debated. As early as 1993 Delors's *White Paper on Growth, Competitiveness, Employment*, suggested that European-wide investments should be financed with the issue of specific euro-bonds. Occasionally, such proposal has been made also in the last two decades (e.g. Sapir 2003). It's time to reconsider it again. The technicalities of different options for Eurobonds have been widely explored (Delpla and Von Weizsäcker, 2010; De Grauwe, 2011; Prodi and Quadrio Curzio, 2011). At least one point is worth recalling: they should be project-bonds, issued with one or more specific aims, so that potential stakeholders may monitor the return on those investments. In other words, they should not be used to reduce debt stocks (Amato and Verhofstadt, 2011), so that each country bears the burden of its responsibilities. We should recall that the Lisbon Treaty requires the budget to be at balance. To make new debt, the current treaties would need to be changed, whereas project-bond could be issued by the *European Investment Bank* (as for the Juncker Plan) in order to overcome the clause concerning a balanced budget.

As concerns expenditures, if the final objective of the institutional changes is to have a more effective economic governance in Europe and greater capacity to satisfy the needs of European citizens, the Eurozone budget should aim at providing Eurozone collective goods, i.e. goods that can efficiently be provided *only*, or *more efficiently,* at the supranational level. Investments in collective goods may comprise: transport, communication and energy infrastructures; higher education and research; support to technological innovation. According to some commentators, they should also relate to a European army and a single foreign policy, therefore enhancing Europe's capacity to tackle diplomatic challenges and strategic alliances worldwide and reduce current inefficient national expenditures. The key point is that these investments should be made at the Eurozone level, so as to compensate for the intrinsic restrictive stance of policies within the euro area. Some of these investments may be appealing to private funds. Indeed, the Juncker Plan relies on private funds for some investments. The point here is nevertheless different; in order to provide some public goods it may be necessary to have more public funds, irrespective of the interest of private investors.

A second crucial point for the Eurozone is to keep a balance between solidarity and responsibility. As the President of the *Bundesbank* recently recognized (Weidmann, 2016: 16):

> "we can imagine two alternatives. Either States transfer both the decision-making power and responsibility concerning the budget to the European level. Or they maintain sovereignty over the budget, but bearing also the responsibility for the consequences of this. A true fiscal union might actually re-establish the correct harmony between actions and responsibility".

The relationship between solidarity and responsibility is a slippery and ambiguous question, as the discussion on solidarity in the EU has often been mostly on the net contribution of each single country (as happened with the *Multiannual Financial Framework 2014-2020* negotiations), whereas it should be mainly on sharing responsibility about both stabilizing behaviours and redistribution of resources.

Generally speaking, in order to provide an efficient answer to the satisfactions of collective needs from European citizens, it is necessary to match the dimension of public government with the shared needs of individuals. Nevertheless, this may require a new constitutional chart for the EU and the Eurozone, as new competences cannot be allocated without a change in the Treaty. Furthermore, such change is not coherent with the urgency to fence off fear, fragmentation, nationalism, and lack of solidarity among European citizens.

Solidarity is a serious matter for the current survival of the EU and its legitimacy, both on a geographical-income level and social-intergenerational ones. The literature on fiscal federalism typically attributes redistribution to the highest level of government, in order to internalize externalities from redistribution. Nevertheless, the EU is very different from existing federations and there is presumably much less agreement in Europe on the need to shift most redistributive measures and instruments upwards towards the supranational level. Efficient asymmetric shocks management requires some redistribution or selective investments. The Five Presidents' Report, in line with this strategy, argues that (official press release, June 22):

> "In the longer term (Stage 2), a common macroeconomic stabilisation function should be set up to better deal with shocks that cannot be managed at the national level alone. It would improve the cushioning of large macroeconomic shocks and make EMU more resilient. Such a stabilisation function could build on the European Fund for Strategic Investments as a first step, by identifying a pool of financing sources and investment projects specific to the euro area, to be tapped into."

Solidarity in terms of opportunities for growth and enhanced resiliency, then. At the same time, responsibility must be assured at the national level in all policy areas that generate externalities on other countries, thus finding efficient ways to oblige countries to stabilizing behaviours in their public policies (basically through a strengthened implementation of macroeconomic imbalances procedures, as claimed in the Five Presidents' Report of 2015). Had we agreed immediately on the need to save Greece, we would have been credible enough as to demand for strict rules from Greece in exchange. And the situation would not have worsened. We should not forget that the rules agreed within the Maastricht Treaty were made to provide a sound public behaviour that would not threaten the whole Euro-zone, therefore reducing negative externalities

within the area and providing stable expectations for the market as concerns the value of the single currency. That pact was broken several times, first of all by France and Germany. What is required from this point of view is the completion of the banking union, with the enlargement of the capital base of the *Single Resolution Fund* and the establishment of a common deposit guarantee scheme (Papantoniou, 2015). And we further need to proceed along the lines of the fiscal and economic union, anticipating the steps envisaged by the Four/Five Presidents and setting a precise time schedule for them. Asymmetric shock absorption is a key stabilizing function of a supranational budget (De Grauwe, 2014).

Given the scarce mobility of labour within Europe, it is also necessary to think of a European wide social protection system. The impact of the lack (or reduction) of national action in favour of social protection since the outburst of the crisis, had a profound impact on the perception of Europe (Beaudonnet, 2013/4). It is urgent to shift some crucial welfare policies from the national to the supranational level in order to provide European citizens the perception that positive policies, not only constraints, come from Europe. From this point of view, proposals concerning a *European Unemployment Benefit Scheme* (Beblavy and Maselli, 2015; Beblavy et al., 2015) might point to the right direction.

3. Changing the structure of the EU

The allocation of competences should be changed in order to allow a core of EU countries to tackle internal and external challenges effectively. Opting out is allowed by the Lisbon Treaty and may be a key to a double-speed Europe. Nevertheless, the question regarding which competences and resources should be allocated to both the *core* countries and the *others,* is crucial and cannot be solved within the Lisbon framework or via enhanced cooperation only.

Enhanced cooperation is viable within the Lisbon Treaty in the field of economic governance and does not require any revision procedure. But the Roadmaps of the Four/Five Presidents go beyond this, envisaging banking, fiscal, economic and political union. Whatever is meant exactly with these labels, democratic legitimacy of collective choices implies decision-making mechanisms and institutions that are not coherent with existing Treaties. In the longer run, the Lisbon Treaty should be reformed or changed completely, substituted by a new one (or, eventually, a European constitution), following the complex procedures of art. 48 TEU.

Running the budget in deficit, for example, would require a change of the Treaties. Depending on the competencies assigned to the supranational government, it may be necessary not to have strict rules concerning the balance of the European debt. Credibility is a crucial asset for policymaking. But strict rules are not always a good stone to build credibility on. As suggested by

the evolution of monetary policy, credibility depends on the ability *to act* in times when it is necessary to. Some degree of flexibility in managing the EU budget might be therefore advisable. This brings to the question: should the Eurozone be able to change the nature of its governance, what are the reactions we can expect from the rest of the European Union? Should we also change the whole economic and political governance of the European Union? First of all, the *core club* needs to be open, certainly to other euro-area members that decide not to join immediately, but also to current non-euro members. It should be made clear that the euro provides constraints but also opportunities. As we already suggested, the decision requires each candidate country to assess his cost-benefit balance, but also the Eurozone as a whole. A compromise between these two alternative decision-making processes needs to be negotiated. But once the core has been made to work efficiently, we would have plenty of time for these negotiations.

Other questions that have arisen in the debate of the last years need to be addressed. The first concerns euro-exit. Until present, there is no specific clause concerning a euro-exit, de facto obliging to exit the whole EU if one wants to exit the euro. No doubt exit-clauses influence the sustainability of currency unions. Influential economists such as Eichengreen (2010) and Krugman (2012) identify difficulties in dissolving a currency union and warn about the negative consequences of a break-up, but do acknowledge the possibility of this. Two German economists (Henkel 2010; Meyer 2011), trying to avoid exploring directly exit clauses, recommend that the currency area should be split into a northern and a southern part, a solution apparently easier to put in place. Other economists have nevertheless rejected such a two-speed scenario (Bootle, 2012), as they recognize shortcomings in economic integration (especially among the southern countries) that would again make this solution unstable. Most contributions (Bagus, 2011; Tepper, 2012; Dobbs, 2012) include detailed dissolution recipes. While some papers deal with a bottom-up break-up, where an exit of one or several countries leads to the dissolution of the monetary union (Nordvig & Firoozye, 2012), other papers deal with a top-down scenario where the union is broken up the same way that it was built: through a mutually agreed decision of member states (e.g., Dobbs, 2012). Whatever the mechanism designed to exit and the extent of the academic debate on this, the result is economically uncertain and politically very dangerous. The choice of the founding fathers of the euro was presumably to have no explicit exit-clause, in the hope that this could make the euro be perceived irreversible. Nevertheless, irreversibility of a currency union depends on the ability to manage the economy out of crises, and this is a controversial issue, as we can see now. The increasing debates in each euro country on the costs and benefits to exit the euro show that the lack of explicit clauses is not a sufficient feature to ensure its sustainability.

A second point concerns the role of the ECB, and it is twofold: a) whether the ECB should become *de jure* a lender of last resort, as De Grauwe (2013) suggests; b) whether the ECB should go further beyond the present *unconventional* instruments of monetary policy. As concerns the latter point, helicopter money is risky, given the inflation potential of the liquidity injection (although now deflation seems the most urgent problem); whereas fiscal stimulus via further quantitative easing to European institutions (Stiglitz et al., 2014; Varoufakis et al., 2013; Watt, 2015; Wolff, 2014; Bibow, 2015) might be of some help, unless it undermines ECB credibility, which brings us to the former point. Credibility is a crucial asset for monetary policy, and a strict statute may provide a solid backbone on which a young central bank can build it. Nevertheless, credibility is required more urgently in difficult times. And, in such times, discretionary power is necessary not only to be effective, but also to be credible. But any change of the explicit mandate of the ECB calls for a new, ample consensus within the Council, which is hard to imagine at present. And here we come to another crucial point: how *to sell* this package of reforms to politicians and European citizens, especially in an unfriendly context, dominated by increasing euro-scepticism.

The European integration process should be understood as a construction of bigger and more costly contradictions, along with attempts to design the means to overcome them. As suggested by Padoa-Schioppa's (1982) "inconsistent quartet", a unified market for inputs (capital, since 1987-1993 and labour, with Schengen), and a single market for final goods and services (since 1992) cannot survive with different currencies or, if a currency union is formed, with diverging domestic policies. The increasing contradictions in the system had a crucial role in forging the path towards the euro. Now, a single currency with different economic policies creates systemic contradictions that cannot be tackled only with "coordination", or with strict rules. Hence the common-sense quest for banking, fiscal, economic and political union.

Nevertheless, when it comes to reforming the institutional structures and mechanisms governing the EU, a political question arises: how can we convince national decision-makers, who retain such power, to give up their (alleged) sovereignty in favour of a higher level of government? The decision to establish the euro was the delicate and complex result of a historical crisis (the end of the bipolar system worldwide), opportunity (German reunification) and enlightened leadership (Kohl, Mitterand, Andreotti and some of their advisors). The situation is now very different from 1989. The twofold crisis hitting Europe (first the asymmetric crisis of the euro sovereign debt; and later terrorism and migrants) provided powerful external shocks to make the shortcomings of the lack of sovereignty (no longer national, not yet European) manifest. But progress in transforming intergovernmental decision-making into genuine supranational deci-

sion-making has been almost nought. No effective initiative has been proposed, apart from the generic Roadmap of the four/five Presidents, and we are currently still in search of an authoritative European leadership.

An important issue at stake for support to changes is the attitude of citizens. The time of a top-down integration project, supported by some elites irrespective of popular consensus is over: with the advent of the euro, it is no longer possible to make Europe from above; citizens are increasingly aware of the risks at stake, although influenced by media and popular debates. A bottom-up support to the integration process nevertheless requires complete (not asymmetric) information, which is currently not the case in none of the 28 EU countries. Citizens are not only the *consumers* of (decreasing) public goods, but also the constituency for their national politicians. The recent rise of Euro-sceptic and Europhobic parties all over Europe (e.g. the *Front National* in France, the *Bündnis Zukunft Österreich* in Austria) is a feature that cannot be dismissed with the euphoria that they were not (yet) able to win the elections and rule their countries (but in Hungary and Poland they were already successful). Communication failures have played a key role in the rise of anti-European feelings in Europe. Governments found it systematically more convenient to show Europe as a system of binding constraints that impeded spending in social protection and welfare policies at home. From this point of view, the role of mass media and NGOs might be crucial in revealing the true preferences of citizens for European integration, and even to guide them.

Furthermore, another major problem concerns the fact that citizens' and governments' preferences, which are usually supposed to be matching (given the agency relationship between the two), are often diverging. It is in the interest of citizens to have their needs and wants satisfied, therefore requiring a reduction of national (ineffective) sovereignty in favour of a (more effective) European one; it is in the interest of government to keep the power on all possible matters, although the exercise of power no longer implies effective sovereignty (but this is a problem only for citizens). The exercise of power differs in nature from the exercise of sovereignty. Neglecting this latter point would be fatal. This also explains why the rise of xenophobic and nationalist parties is a fundamental asset for the ruling classes (whatever their ideology): because it provides them with arguments to pursue nationalistic policies for (maintaining the) power, showing that they are simply matching citizens' preferences.

Given this framework, it is necessary to single out a specific initiative that may ignite another contradiction in the system, so as to lead to a further step in European integration. A strong quest for a Eurozone budget might serve this task. Once an enhanced cooperation be established among a group of core euro countries, with its own budget, and own resources to finance specif-

ic collective European goods, citizens would start perceiving the positive role of European institutions, and governments would start shifting the political struggle from the national to the European level, reconciling the struggle for power with the exercise of sovereignty. In a small time, a legitimation process would become a pressing need, so as to transform the present governing institutions into a proper Federal Treasury, with full power to collect resources and allocate the budget for a core group of euro-countries.

Concluding remarks

The current crisis in Europe is endogenous. It depends on the structure of its governance, with decision-making attributed to intergovernmental institutions and methods, which proved (and still prove) ineffective to tackle economic hard times. Furthermore, Europe has no means to absorb asymmetric shocks and finance countercyclical policies for recovery, lacking a reasonable supranational budget and given the constraints at the national level. The only resulting strategy was expansionary austerity, in the hope that it might work. Unfortunately, it did not.

Given the endogenous nature of the present crisis, it is necessary to change the institutional structure of economic governance. The European economy needs both demand and supply side interventions that require much more than a monetary impulse (that might prove hardly useful in times of general distrust and liquidity trap). At least, it is necessary to pool fiscal resources for collective investments.

Given the huge policy externalities within it, this can and should urgently be done in the Eurozone framework, through an enhanced cooperation, providing the euro area with: the minimal institutions to tackle effectively with domestic-European asymmetric shock absorption and growth financing; a more effective executive power to the Commission, with the creation of a true supranational Treasury; a more legitimated process through greater role for the European Parliament and the use of majority vote within the Council. We have also highlighted the difficulties in *selling* this reform package to national governments and citizens. In the lack of forward-looking authoritative leaders, we should rely on a more transparent communication system in Europe and to giving greater voice to NGOs and the European Parliament. Furthermore, we should make people understand the exact nature of the crisis: a lack of effective sovereign power that can only be exercised at the European level.

We should make our best to come as quickly and as close as possible to this new arrangements, within existing Treatise in the short run; and struggle to make more profound and larger changes outside of them, in the longer run, via a new fundamental law that may re-write the mechanisms of civil cohesion in Europe. It is no longer time for drafting reports and roadmaps, but to start

implementing them, with a precise, rigorous and urgent time schedule. The crises hitting Europe in the last few years have opened up a window of opportunities for radical change in the EU governance. Nevertheless, there is a time constraint imposed on European citizens; and time is a scarce resource. We are aware that this, at present, is an exercise in imagination. But in times of doom and lasting crisis, even imagination may turn out to be a precious asset.

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