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PSL Quarterly Review, vol. 69 n. 279 (December 2016), 295-300

Introduction. Time for a new debate on Europe

CARLO D'IPPOLITI*

Several observers commented on developments in 2016 as having the last word on issues that had been open for a long time. Some of these conclusions were not for the best. For example, the outcome of the referendum on Brexit, that is on the permanence of the United Kingdom in the European Union (EU), came as a surprise to many. But it certainly should not have been a shock, in a country with such a long history of euro-scepticism. Similarly, the widespread growth of so-called populist movements, including the election of Donald Trump in the USA, may be a predictable consequence of both cultural and economic trends that date back several decades now (Inglehart, Norris, 2016). However it would be wrong to rest on the supposition that the final word has been said. First, because these trends are still on-going, and may still exert similar effects (e.g. in the forthcoming presidential elections in France). Second, because the new context they generated implies a need for adaptation and thus an opportunity for change, in economic and political terms, if not in legal and institutional ones.

With a focus, by no way exclusive, on Europe, in this issue Tonveronachi expresses this point in very clear terms. The spirit of the time is clearly closed to – for the time being utopian – hypotheses of further centralisation of power at the EU level. Especially concerning fiscal policy, some member states desperately need higher fiscal deficits, which would provide a much needed support to aggregate demand, even if deficits remained within the limits of the Maastricht and Amsterdam Treaties. (On the other hand, one could argue that higher fiscal deficits in the countries that do not immediately need them would only be possible with more centralisation of power at the

* Sapienza University of Rome, email: carlo.dippoliti@uniroma1.it.

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EU level). More in general, it seems that looking at the increasing popular hostility against the EU, we will have to live with the current set-up for a while before significant Treaty changes will be possible again. As Tonveronachi argues, the current set-up is a union made up of sovereign countries competing under common rules. Even if some of the founding fathers of the EU and of the euro saw every new European institution as a step towards political (possibly federal) integration, there is now confusion and uncertainty over the final aims and objectives of the EU. Despite the euro being the currency of the European Union according to the Treaty on the Functioning of the European Union (TFEU), several countries do not exhibit any will to enter the Euro Area (Montanaro, 2016) and Denmark has a right to potentially never enter it ("opt-out"). Moreover, even within the Euro Area (EA) the common rules are implemented differently and have different impact from country to country.

Thus, the EU appears to be semi-permanently a multi-tier system, founded on competition rather than cooperation among member states, and in which competition does not take place on a level playing field.

Moreover, opposition to any potential transfer of resources between member states constitutes a major stumbling block on the road to European unification. Such opposition arises not only from the fact that the few residual feelings of solidarity do not extend beyond national borders, but also from radically different narratives across countries on the nature and root causes of the euro crisis. As a consequence, while possibly being the most progressive way forward, significant mutualisation of European sovereign risks will have to wait for better times.

From this perspective, "Eurobonds" are a crucial example. As is well known, on the 23rd of October 2011 the European Commission (EC) published a *Green Paper* on "Stability Bonds" (EC, 2011). The name was suggested by Mr. Barroso's attempt to emphasise the financial and macroeconomic, rather than the fiscal and distributive, implications of the joint issuance of public debt at the EU (or EA) level. The Council reaction to this proposal has been underwhelming, and

the press gave particular echo to Ms. Merkel's June 2012 statement that there would be no Eurobonds "as long as I live" (*Der Spiegel Online*, 2012). Shortly thereafter, the Commission has reduced the time by which Eurobonds could come into existence to a "long term (beyond 5 years)" (EC, 2012, p. 12), significantly after a first stage of full implementation of the so-called two-pack and six-pack (including the infamous "Fiscal Compact") and a medium-term stage of "further budgetary coordination (including a possibility to require a revision of a national budget in line with European commitments)" (*ibid.*). In 2013, the European Parliament (EP) passed a resolution considering "that the introduction of stability bonds would be an operation at par in importance with the introduction of the single currency" (EP, 2013, point 6). In response, "the Commission [was] of the opinion [that] much more work would need to be done to credibly address the concerns of those governments and parts of the civil society that are currently not yet convinced of common debt issuance" (EC, 2013). Finally, the three-stage process suggested in the Commission's *Blueprint* (EC, 2012) are reiterated in the *Five Presidents Report* (EC, 2015), with the strengthening of fiscal "coordination" in the second stage, and the fading out of common debt instruments into "a common macroeconomic stabilisation function" (to be agreed upon later on) in the third stage.

Thus, as of 2015, stability bonds, Eurobonds, or any common "bonds" have disappeared from the EU dictionary, and the official story is that "the euro is a successful and stable currency. [...] It has provided its members with price stability and shielded them against external instability" (*ibid.*, p. 4). It hardly needs recalling that the employment rate in the same year was 69% in the EA, against an EU target of 75% and values of 62% in Spain, 60% in Italy and 55% in Greece, where little more than half of the adult population is employed.

To tackle this situation and its worrying political consequences, Tonveronachi (in this issue), proposes a recipe for reform based on three pillars: (*i*) the issuance of Debt Certificates (DCs) by the European Central Bank (ECB); (*ii*) *de facto* overcoming of the "six-

pack" and the other regulations that constrain members states' discretion in the conduct of fiscal policy, even if within the limits of the Maastricht (and Amsterdam) Treaty; and (*iii*) reforming financial regulation. Thus, a specific feature of this proposal is that the three pillars are integrated and mutually sustain each other.

With the publication of this article the *Review* hopes to start a debate on the future of Europe, focusing on realistic reforms of the economic policy architecture of the EU. From this point of view, Tonveranchi's contribution is based on the premise that no treaty changes are plausibly within reach, and yet more radical change is necessary than what is envisaged by the *Five Presidents Report* (EC, 2015). On a higher level, Tonveronachi's contribution stresses the importance of clarifying from the start what future for the EU we want to envisage, in order to agree on a path towards a clear and shared objective.

The editors of the *Review* chose this contribution to open a debate on the future of the EU, because the new conditions make several of the previous proposals, e.g. on Eurobonds, obsolete (many such proposals are cited in Tonveronachi's paper).

On the one hand, the likelihood of a Treaty change seems significantly lower today than in 2012, and yet its necessity is made more urgent both by the Brexit and the multi-tier reality of the Union. On the other hand, Europe's muddling through, founded on the delusions of a sustainable Continental export-led growth strategy, created some developments different from those envisaged by the European Commission, 2012, or suggested by Claessens et al., 2012. The European Central Bank's (ECB) expanded asset purchase programme has probably substituted the "Eurobills" plan aimed at stabilising short-term rates,[1] and Tonveronachi's first proposal is thus rather aimed at extending the ECB's ability to affect the whole maturity spectrum of the yield curve. Meanwhile, the European "Banking Union" has been launched, but it needs completion in crucial

[1] In contrast, the European Systemic Risk Board (ESRB) has recently relaunched the proposal of securitization of European sovereign bonds, with the creation of a High-Level Task Force on Safe Assets (ESRB, 2016).

respects (Montanaro, 2016); and pilot "project bonds" issued by European Investment Banks have been received favourably by financial markets (Dhondt et al., 2015).[2] Finally, Brexit, the election of Donald Trump and developments in the Middle East and in the Far East are again changing Europe's global prospects and opportunities, despite the European debate being almost exclusively focused on "internal" EU issues (D'Ippoliti, 2013).

In contrast, as shown by the two subsequent articles in this issue, our *Review* retains its international focus. Rafi et al. continue the debate on Islamic finance started in this journal by Askari, Krichene, 2014; Nassif et al. close this issue by investigating recent growth dynamics in the BRICS countries in light of the "strong" and "weak" versions of Thirlwall's law (Thirlwall, 1979; 2011b).

The debate on Europe must proceed in parallel with discussion on the other regions of the world, both for the impact that these latter have on the EU, and for the global consequences of the dire predicament of Europe, which is the largest economic area in the world. In the coming issues, the *Review* will continue to contribute to the global discussion on all areas of the world; as much as Eurobonds have been expunged from the dictionary, "decoupling" can hardly remain in it.

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[2] In April, after the March 2016 European Council, the Italian Government issued a "non-paper" with the proposal for a "Migration Compact" that, among other proposals, included an extended project bonds plan, called "EU-Africa bonds" (Italian Government, 2016). Reception of this proposal has been, though, tepid at best.

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