

# Recent measures may have signalled the beginning of the end of the Eurozone crisis. But the transformation of EU economic governance is still far from complete.

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*Measures such as the new Fiscal Compact and the European Stability Mechanism may have averted the immediate threat to the Euro. But, according to **Iain Begg**, some further measures, such as the introduction of Eurobonds, are needed on top of what has been, up until now, the largely piecemeal evolution of European economic governance.*



Slowly, painfully and often reluctantly, the leaders of the Eurozone have edged towards a credible and enduring solution to the sovereign debt crisis that started in Greece in the autumn of 2009 and is now well into its third year. Now that both the Greek and German parliaments have approved the latest measures, the immediate threats of a meltdown of the Euro seem to have abated and financial markets look calmer. But has enough been done to give hope that the end of the crisis is in sight?

The broad contours of the new approach are at last becoming visible. The recently agreed Fiscal Compact (formally, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union) brings together many of the reform initiatives taken over the period from October 2010 to October 2011, which had two main purposes.

First, they will strengthen measures designed to prevent problems arising from lax fiscal policies or the emergence of the sorts of imbalances that have been seen over recent year. The latter included bubbles in property markets and the losses of competitiveness that led to large balance of payments deficits in Southern Europe. Second, there is to be much closer coordination of national policies and collective oversight of policy and to assure compliance.

## Grounds for Optimism?

Cynics might argue that we have been here before: rules to curb fiscal indiscipline were already in place in the form of the Stability and Growth Pact, and the experience of the previous decade was that they lacked bite. Moreover many diehard Keynesians query the restrictive nature of the approach. What is nevertheless now evident is a much stronger political commitment to enforce the rules and all the signs are that the raft of measures to instil fiscal discipline will be taken more seriously. Similarly a new 'excessive imbalances procedure' has the purpose of identifying and correcting the non-fiscal problems.

In addition, there is to be a new crisis resolution mechanism including a permanent fund to replace the temporary European Financial Stability Facility. The European Stability Mechanism results from an amendment to the Lisbon Treaty, applicable only to Eurozone countries, and will be able to provide loans to member states in difficulty, subject to conditions and to bondholders sharing some of the burden.

The abiding image of the last year has been one of dithering and lack of resolve, and even before the ink was dry on the latest deal, other G20 members were calling on the Eurozone to do more. Seen in isolation many of the specific obstacles to progress can be readily understood, whether it is German fears about pouring good money after bad, or Slovaks trying to work out why they should be rescuing richer partner countries.

## Recasting Economic Governance

But what has been conspicuous throughout has been a lack of clarity about the overall shape of a reformed system of governance. Instead, it has been one piece of the jigsaw at a time, to the frustration of markets and the public. Yet the paradox is that the overall transformation of EU economic governance decided over the past eighteen months has been profound.

There is one further step that has, so far, proved to be beyond the pale, namely the introduction of [Eurobonds](#), jointly and severally guaranteed. The attractions are clear: having a single Eurobond would – as with the US Treasury bond – make it far easier to raise funds and to overcome the fragmentation that has made it so easy for the markets to pick on one country after another. Opponents worry that making it easier for already heavily-indebted countries to borrow more will only make things worse.

However, there is a simple means of reconciling the two positions which is to impose appropriate conditions. The details will matter and agreeing them will, no doubt, be a tortuous process. But now that time has been bought, it should be used to complete the governance jigsaw.

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*Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.*

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