GOVERNING EMU AFTER THE CRISIS – SENSE AND NONSENSE OF THE NEW PRACTICES

By László CSABA/CEU and CUB/e-mail:csabal@ceu.edu

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BIO: László Csaba is professor of international political economy at Central European University and Corvinus University of Budapest, Member of the Hungarian Academy of Sciences and of Academia Europaea. Author of 12 monographs/ of which 6 in English and 350 academic items published in 22 countries. More on his web: www.csabal.com

ABSTRACT: Managing the crisis of the Euro-zone, triggered primarily[1] by the spillover of the global financial meltdown has brought about more supra-national solutions than anybody could have guessed at the time of signing the latest Treaty on the European Union/TEU in Lisbon in 2009. While the latter is firmly anchored in enhanced inter-governmentalism, innovations in crisis management have brought about giant steps toward supranational solutions. Creating a permanent mechanism for crisis management, the European Stability mechanism/ESM, vesting the European Central Bank/ECB with the non-trivial and largely fiscal role of supervising systemically relevant large private banks, creating the Single Resolution Mechanism/SRM and the European semester all follow the 'discipline for money' logic. Furthermore the ECB has been re-interpreting its mandate in September, 2012. By providing unlimited liquidity 'to save the euro', further by launching a 1.17 trillion worth of stimulus package in January, 2015, it has been transformed into a full-blooded federal central bank.

While parallel fiscal and monetary easing have not yielded the desired effects by generating robust growth, the disciplinary devices of the EMU have fallen short of deterring notorious trespassers,

[1] True, it would be hard to deny the contribution of internal factors. The latter includes the dodging of major reforms in most – especially large – EU states, profligate public finances, limited if any regulation of the private financial sector, underinvestment in research, development and good quality education, overtaxation and lack of liberalization of the services sector, accounting for 75 pc of wealth creation int he EU according to Eurostat.

from Greece to France and Italy, to continue their malpractices. By contrast, succfessfully adjusting small economies, like Luxemburg, Latvia and Slovakia have all shown the primacy of committment/domestic ownership of reforms versus supranational straight-jackets in managing public finances successfully. This experience calls for the re-thinking of the pre-dominant politico-bureaucratic logic of European governance – the sooner, the better. The anti-austerity debate seems to be positively misleading in terms of theory and policy alike.

Key words: austerity debate; discipline for money; Grexit; sovereignty sharing

Introduction

While the currently effective Treaty on the European Union/Lisbon Treaty is built on enhanced inter-governmentalism, management of the financial crisis in 2010-2015 has triggered a series of changes that cleary move towards supranationalism. Managing the financial crisis followed the conventional logic of corporate control in terms of top-down decision-making. Furthermore it also follows the logic of controlling packets, where minority shareholders and stakeholders can, and often do, get voted down. While such options are largely inevitable in the corporate world, this logic defies the mechanism of political decision-making, as it emerged historically in the European Union. The latter is built on symbolism and unanimity, perhaps at the expense of efficiency. But the fact of the matter is that even half of a country – southern Cyprus – can veto major policies of the Union, say on Turkey or on baiouts. All common policies rest on observing the unanimity principle and are based on sophisticated and often non-transparent inter-governmental bargains/Wallace- Pollack-Young, eds, 2014/. By contrast, most if not all crisis-management have vested decision rights in un-elected bodies, that are not accountable neither to the European Parliament, nor directly to any of the national legislations. In short, the economics and politics of European integration have departed. In the following essay we try to address its consequences and offer a more effective wayout than the series of improvized decisions have produced to date.

Summary of Available Evidence: Discipline for Money

There has been a feeling of overwhelming gloom over the European Monetary System/EMS ever since the outburst of the global financial crisis of 2008-2009. Eurostat/ECB data indicate no sign of a crisis. The latter means either inflation over 3 per cent or deflation, i.e a 4 quarter decline of

the overall price level expressed in the harmonized index of consumer prices/HICP[2]. Actual numbers fluctuated between 2.6 per cent and 0.7 per cent in the past 15 years. Still, the mounting - and sustaining - domestic socio-economic difficulties of several member-states tend to be blamed on the EU in general and on its monetary model in particular. While in the academe the straightforward and all-encompassing anti-austerity position/Blyth, M.,2015/ counts as extreme, in the political discourse in many countries and increasingly also in the Union itself has gained respectability.

Several governments – as the French, the Italian and most prominently the Greek – have been elected on a wholesale anti-austerity platform. The largely heterogenous Euroskeptic group in the European Parliament, representing about 25 pc of the votes, is allied not only on anti-elitist and anti-capitalist sentiments, but also on rejecting what *they percieve as harmful and useless fiscal overzeal.* The latter is certainly not born out by statistics, since the debt/GDP ratio of the Euro-zone grew from 67 pc in 2007 to 92.7 pc by 2013[3] which grew further to 95 pc according to preliminary estimates by end-2014. In nearly all countries of the EU – except for Germany, Hungary, Latvia, Lithuania - the debt/GDP ratio continued to deteriorate, in the case of Bulgaria and Romania it stagnated, according to the same source. Since the economy contracted only in 2009 and 2012, in all other years a decline of the debt/GDP ratio could have been warranted. The only exceptions are the cases such as Ireland and to a lesser degree Spain, when the public authorities were forced to bail out large financial institutions, as the latter have proven unable to cope with the problems they generated for themselves/Lucey et al., 2014/

The governance of the EMU has evolved for peaceful periods of incremental changes for the better, for the sunny days whith everybody complying voluntarily. In other words: it has not been meant to manage crises, as it was seen as a culmination of the victory of conventional economic rationality over arbitrary politics. It has been built on gentlemen's agreement and voluntary joint compliance of the like minded. Joining the single curency has never ben seen as a technical exercise, let alone a trick to ensure cheap external funding for profligate politics[4]. EMU has always

[2] This is an average of national rates, calculated along a single methodology, and reflects the performance of the Eurozone as a whole, which is the target of activity for the joint central bank, the ECB. National rates may and do converge, both inside and outside the area of the single currency.
[3] ECB: Statistics Pocket Book, September, 2014, p.7.
[4] The latter – cynical – reading prevails in much of the technical literature, especially in the UK and US. In this reading low ECB rates invite profligacy rather than open up an opportunity for poorer countries' to fund productive

been seen as the formalization and institutionalization of the voluntary conversion to fiscal orthodoxy by all participants/Cassel, D., ed., 1998/. These included such countries as France, Italy and Spain, none possessing with a track record of solid public finance. Inserting the no bail-ot clause of the Amsterdam Treaty of 1997, making each state responsible for the health of its own public finances, was a clear sign of it. Fiscal surveillance thus was based on indicative rather than compelling procedures. The latter included the Broad Economic Policy Guidelines as well as the Stability and Convergence Programs, none of them being binding international agreements. The entire process was built on 'naming and shaming', i.e on the deterrence of wide publicity of malpractices against a broadly based professional and political consensus over what sound economic policies should look like.

Thus when the Greek crisis erupted in December 2009, which was followed by the Irish, Portuguese and Italian fiscal collapses, the Union was found largely *unprepared and unarmed to meet those challenges.* Faced with a largely unexpected spill-over of the Greek crisis on other countries of the periphery of the Union, core countries – most notably Germany – declared as early as in the spring of 2010, a de facto no bankruptcy clause. This was a sign of traditional political solidarity, as an unspoken foundation for political and economic integration in Europe. However, economic and legal instruments for acting jointly, and especially acting in time, were largely non-existent. Furthermore the size of available liquidity was not martching the size of the demand for it[5]. Neither buffer funds nor rapid reaction forces to bail out large banks were available. The ECB was proscribed by its statute to act as a lender of last resort, let alone to monetize public debt by purchasing the bonds issued by EMS member-governments.

Involving the IMF in the rescue packages of previously troubled countries, as Latvia, Hungary and Romania was not a surprise, as these countries – like Poland with its special arrangement[6] –

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investment, as conventional development economics – and common sense – would have it. Thus crime becomes normalcy and virtue a stupidity. The axiomatic economic consideration – i.e governemnts usually follow political goals and committed to public purpose, not to micro-economic incentives and rationality – have long been going under.

[5] If we take Hungary, the 20 bn Euro bailout package of October, 2008 could not be covered from the then 120 bn/and even from the by 2015 153 bn/ Euro total Community budget, committed already to a series of other objectives, from farm support to immigration control. The ECB and the European investment bank had neither the mandate nor the ability to mobilize such big sums in days rather than months.

[6] The Precautionary Credit Facility, which was devised specifically for countries with a sound economy attacked by panicking markets, without the usual strict conditionality of stand-by agreements.

were outside the EMU framework. But the fall of prestigous EMU members, for whom the Euro-zone was supposed to create an umbrella for the rainy days, was a real shock. Reliance on the IMF and turning intra-EMU affairs into a *ménage á trois* by creating and empowering the troika to manage the crisis, was a heavy blow to the prestige of European arrangements.

The reaction to this embarrassing situation was largely improvized, as the EU clearly has not possed with a plan B for unexpected shocks. The growing number of non-compliers and the immediate spillover of the crisis of confidence on formally solid economies, like Spain, Ireland and Portugal, have shaken the foundations of the architecture. This is not the place to re-iterate the bits and pieces of the crisis in various areas and countries/cf Dallago and McGowan, 2015; Daianu et al, eds, 2014/. Let us offer just a brief summary of only the major institutional innovations that have taken place – hardly by chance – outside the scope of Treaty regulations, as they all move towards more, rather than less, supranationalism.[7]

Introducing the *European Semester* in 2011 implied that fiscal plans are being scrutinized, in greatest detail, by the peer organizations and also primarily the Commission, even prior to formal submission to/let alone approval by/ the national legislations. This is an attempt of ex ante prevention of trespassing. Second, the *Fiscal Compact of March, 2012* contains a series of quantitative and procedural measures to enhance compliance. In a way, this is a servered new edition of the original Stability and Growth Pact of 1997, but it also contains obligatory measures and degrees of how to diminish public debt and details ways and means of coping with the latter. While the Compact is obligatory for EMU members, outsiders like Hungary in 2012 and Denmark in 2015 could also join. The basic innovation of the Compact is twofold. By envisioning pre-set multi-annual fiscal targets – which are not subject to ad-hoc negotiations - it sets the course for adjustment in terms of public deficits and debt/GDP ratios alike, should derailments be forthcoming. Moreover, it imposes a series of sanctions on non-compliers up to the point of suspending voting right sin the Europgroup. At the end of the day, the Compact returns to the original vision of the Stability and Growth Pact by reverting the softening which has eroded its effect since 2003-2005.

[7] While the latter is a problem, both on its own right, and for the political construct and legal arrangements of the EU cf the edied volume by Fehrmann/2015/.

Third, establishing incrementally what is by now the *European Stability Mechanism/ESM*, i.e a permanent bailout fund in the range of 705 bn Euros/against the seven year framework of 980 bn Euros/ aims at pre-empting speculative attacks on banks and governments alike. Run by a technocratic board, it is clearly outside the meticulous controls of checks and balances otherwise featuring in the EU institutions. Fourth, the Single Resolution Mechanism, a 55 bn Euro fund to manage cross-border strains arising from potential and actual banking failures was set up.

Fifth, a *joint supranational level regulation of systemically relevant large banks* has been created and vested in the European Central Bank. Sixth, the European Central Bank has silently but effectively changed its own mandate. By initiating the 'unlimited provision of liquidity' ever since September 2012, and getting away with it[8] *the ECB has become a fully-fledged lender of last resort*/cf also Hu, 2014/. Furthermore – defying the explicit stipulations of its statutes – it is involved in direct and indirect purchases of government bonds of indebted countries, and approved the Greek government's purchase of T-bills in spring, 2015 – both constituting monetization of public debt. This is more of a replica of the American FED than of the original role model, the Bundesbank.

Let us note: all those changes follow the logic asking more 'discipline for money', is a bureaucratic rather than an economic concept. For it is pretty well documented – most elaborately and extensively in Kopits, ed./2013/ - that international agencies have very limited capacity in imposing discipline on non-complying national actors. Also within the countries fiscal discipline is largely conditioned by domestic balance of forces and professional convictions.

As the above volume documents in detail, the Congressional Budget Office, set up back in 1974, has proven completely defenseless against the spending spree of successive American administrations. All the less so, as the major part of the US economics profession, both on the Right and the Left, have adopted a grandfatherish approach to exploding public debts. While the Republicans were preaching the unconditional growth and employment benefits of tax cuts[9],

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[8] To the surprise of many observers both the German Constitutional Court and the European Court of Justice approved the direct purchases by the ECB as legal in their verdicts of September, 2014 and January, 2015 respectively. The many additional provisions attached by both courts to it in legal fineprint did not seem to have impressed decision-makers.

[9] The ritual reference to the Laffer curve has been used *ad nauseam.*

irrespective of macroeconomic numbers regularly refuting the claim in 2000 – 2008, Democrats were reviving old fashioned vulgar-Keynesian ideas about the virtues of ’tax and spend’ policies. Furthermore federal deficits in the range of 10 per cent of GDP, or 25 per cent of expenditures, has been tolrated and even boasted by the Obama Administration in 2010-2015. This has indeed been unprecedented at times of peace, and required a fair dose of belief in the impossible, namely that exploding debts do not matter. While the latter is the conventional textbook view on the issue/both in the new classical and new keynesian editions/, historic experience is quite different. *Debts do supress growth in the longer run, in any country and at any time.*[10] By contrast, in countries like Slovakia and the UK fiscal discipline could be introduced prior to setting up independent fiscal councils, when professional and political support could be built up in its favor.

In line with this insight we might well not be that surprised to observe that *the institutional innovations in the EMU have failed to produce the expected outcomes. On the contrary, trespassing goes on.* Moreover not only as a peripherial, occasional de-railment, a sin of the old days. New trespassing is massive and being committed by the largest member-states.[11] Let us note: Greece, accounting for about 1 pc of total EU GNP, and being a closed economy, with exports and imports together accounting for only 60 pc of Greek GDP in 2008, growing to a mere 68 per cent by 2014[12], can not be the triggerer or the major culprit.

Diagnosis and Therapy

If our above summarized basic observations hold, much of the debate in and around Europe seems to have been misplaced. If we try to google in the related literature, we would find most contributions revolving around two claims. 1. Nominal convergence criteria are arbitrary and/or not achievable, and if achievable, only at too high a cost in terms of real variables. 2. Sanctions elaborated at EU level do not bite, thus what is needed is severing them. Punishing the sinners, say via suspension of cohesion or farm payments, or even suspending their veto rights at various EU fora is the way ahead. The latter stipulations have firmly been anchoredin the Pluri-annual

[10] For detailed evidence cf the extensive articles of Reinhart íand Rogoff/2011, and 2012/, not questioned in the numerical debate over whether or not their 90 pc threshold is the right one. The latter used to be a hot topic fornewspapers, not however for the academe.

[11] Should the UK be an EMU member, it would also count among the sinners, with public debt/GDP climbing up from 78.4 to 91.1 pc in 2010-2014, and annual deficit running between 10 and 5.8 pc under the Conservatives, according to ECB :op.cit.

[12] Eurostat data, cf with 200 pc ratio for Hungary or the Benelux countries.

Financing Framework for 2014-2020 in the form of cross-conditionality. Nemly missing fiscal criteria may indeed lead to suspension of unrelated payments – as in farming or cohesion spending.

Let me re-state: solid public finance is a virtue on its own right and it is also a necessary condition for EMU to function in the form we have known it. The question is different. Do we diagnose the macro-economic problems properly if we constrain ourselves to a few selected conventional macro-economic indicators? Observing the ill says yet nothing about ways of overcoming it.

The bulky volumes cited above seem to agree on the diagnosis: missing the targets in a row is *a sign of bad governance rather than of mishaps.* If this is the case the question is not, whether the 90 pc or 60 pc benchmark for debt/GDP ratio is appropriate. The issue is if it is indeed the feebleness of EMU-level sanctions that positively invite repeated de-railments? Is it not the domestic political economy which is at stake? Is it not the *quality of domestic institutions* which finally matters? Is it not the existence or lack of professional and social consensus over the state of affairs and the desirable wayouts which will be decisive? In all: is it not the *domestic political economy and its dynamics,* far beyond the usual analytical framework of technocratic agencies which will settle the outcomes of competing expectations and projects? This finding arises from self-contained sectoral analyses of major expenditure areas of the EU, as cohesion spending/Molle, 2015/ and agricultural policies/Daubjerg, 2013/.

If we accept those findings the focal question in macro-economic adjustment in both EU level and at the level of the EMU member-states can not revolve around the proper size and composition of the austerity package. Unless the root causes of the illness are addressed, there is no hope for a sustainable, lasting solution. The spiral of austerity, which was first observed in Communist economies/Antal, 1983/ may easily replicate itself – basically for the same reasons: poor quality institutions, misaligned incentives and the ensuing lack of micro-economic adjustment to changes in demand.

Therefore: square one of the therapy is *to discontinue the fixation on numbers.* If the roots are being attacked, those must include workings – size, quality, performance, cost-benefit – of local institutions. In most cases I am unaware of the ex ante conduct of not even the simplest SWOT analysis, taught in any business school, to have taken place, but arrangements are doctored so as to reach – even if temporarily, for the day of measurement - quantitative financial targets. This of course is a myopic option leading to follow-up softenig and derailments.

Second, if the root of the above listed problems is *structural* or *regulatory* in nature, even staunch Keynesians would call for *restructuring, not more money*. What we have observed in the period of provision of 'unlimited amounts of liquidity' by the ECB has been anything but a boom in crediting, especially to SMEs and the productive sector. Commercial banks tended to buy government bonds or park the newly obtained liquidity with the ECB proper. This is prudent from their private shareholders' perspective – zero risk with modestly positive returns. However, at the level of 'collective rationality', it is exactly the opposite to what regulators and the ECB aims at.

Third, even the classical argument may be raised in which *more liquidity may actually worsen rather than remedy a structural crisis*. It does via allowing for inefficient firms to survive and further postpone the long delayed – and inevitable – structural adjustment of their output and employment pattern. Actually as a recent study of the Buba notes [13], more productivity is the key, which may lead to more adjustment, more innovation and through that more employment – not only in Greece, where all these show signs of decay.

Fourth, the focus on punishments may be misleading. It is reassuring to read that Finance Minister Wolfgang Schauble has come out resolutely against proposals/threats/speculations of *excluding Greece from the Eurozone – this would create more trouble than it would solve*. [14]The nature of European architecture as well as the long overdue structural therapy would all pre-suppose a co-operative solution. First, Grexit would qualify seven years of effort and sacrifice as meaningless. Second, European political cohesion would be discredited. Third, the new drachma would quickly lose in value, thus further exacerbating the domestic chaos. Finally it would be hard to avoid an authoritarian solution- and that to be blamed on the incapacity of the Community to manage the crisis in a coherent and efficient way.

The most acute case for European monetary and fiscal governance is, however, not Greece. In reality, it is perhaps France, where not meeting any of the nominal convergence targets over the past 5-6 years has been compounded by the equally weak and worsening situation in the real economy in terms of growth and employment. Since the French governments over the period can by no means be accused of overdoing austerity, theirs is clearly a case in point: *no amount of easy money is likely to improve a structural weakness.* While the Frech GDP hardly grew – between

[13] *Monatsbericht*, Mai, 2015, p 26 passim
[14] *Frankfurter Allgemeine Zeitung*, 11 May, 2015.

0.2 and 0.8 pc p.a – since 2010, unemployment increased from 9.2 to 10.3 pc, general government deficit fluctuated between 7 and 4.3 pc and public debt exploded from 82.7 to 96.6 pc. Thus the talk about extreme austerity lacks statistical foundation, while the ineffectuality of easy money can be easily seen as proven.

As the Eurozone is not composed of ill pupils only – from Luxemburg to Estonia many bright spots emerge - it seems premature to conduct debates on changing the architecture of the EMU. It seems, on the contrary, that *national reform projects hold the key.* Instead of sharing/pooling more sovereignty, as advocated by ECB President Mario Draghi [15] the 'charity begins at home' principle should be heeded.

Conclusions and Prospects

In this short essay we have advanced additional arguments to our previous reasoning/Csaba,2014/, why the focus on austerity and the over-emphasis on qunatitative targets over structural and institutional factors not only may be, but has, in reality, been *positively harmful for the improvement of European governance.* As economics is the science of numbers, this is not a call for a flat disregard of fiscal realities, including the worsening macro-economic situation in many large member-states. It goes without saying that money matters. Large quantities of money should not be wasted on imprecise, murky or sometimes even lunatic projects. Furthermore the ongoing drifting, which has been observable ever since the launching of the Euro, should finally come to an end, and well designed and sequenced reforms finally introduced, not only contemplated.

Our finding echoes earlier – much proven – insight of the Austro-American economist, Rüdiger Dornbusch/1993/ who was first to observe the following. Markets are though rational, market players are not necessarily so. Thus perceptions, fashions, subjective judgements play as important a role, as fundamentals, communication matters. However, he noted, one leg would not do: concerted actions and their clear and also credible communication *together* may be effective. If this holds, access to private capital markets is restored and the issue, if you have actually delivered on your fiscal or business plan on the decimal point, might not even be raised, let alone be subjected to sanctions.

[15] Draghi calls for 'quantum leap' in European integration.*euractiv,* 17 March, 2015, last retrieved on: 21 May, 2015.

Thus we may conclude: the „discipline for money" approach is a dead alley, or in the wording of the title nonsense. It has not yielded improved performance, and that for inherent reasons of construction and incentives. The more sensible option would thus be to use the newly created instruments aligned to the Treaty on the EU[16], which circumscribes the current political realities. The threat of a Brexit – following the referendum scheduled perhaps already for 2016 in the UK – renders any federalist attempts, implying actual rather than formal 'sovereignty sharing' unlikely to be enforcable in this climate.

As David Cameron made it clear after his re-election: his actual priority is not to exit from the Union/nicknamed as Brexit in the press/. His basic target seems to be a replica of Ms Thatcher's move of 1984. Namely: three decades ago the Iron Lady pressed for and attained treaty changes that allowed the UK to benefit in terms of limiting its payments to the farm budget – this is the still surviving famous British rebate. This time the UK aims at explicit limitation of any federalist – supranational – arrangement that would put limits on national sovereignty. The latter holds for a series of areas, not confined to the economy and finances: from immigration via social rights, from the immediate effect of rulings of the European Court of Justice to the mandate of the ECB as the joint organ for banking supervision. These attempts are in fact in line with the wording and the spirit of the currently effective Treaty on the EU, thus the baseline scenario looks attainable.

What is then the *most probable outcome of the forseeable changes in the governance of the Community*? In short: the reversal of some, if not all, of the supranational innovations of the 2009-2014 period is likely to take place. All the more so, since a number of small countries and the Scandinavians all tacitly align themselves with the British.[17]On the one hand, many of the innovations are irreversible – such as the ESM and the SRM, and so seems to be the supranational regulation of major, systemically relevant banks. The shere size and mechanism of thsoe arrangements discourages speculation against major European banks, while the ECB practices provide a shelter from external shocks for EMU- menber-states – but not to EU members outside the Euro-zone. Since these are the more vulnerable, smaller states anyway, lack of protection may become a problem on its own right, both on the political and the economic planes. In the case of the – forseeable – emergence of a new financial crisis, the challenge of solidarity and also of

[16] Note again: most if not all supra-national innovations, from ESM to SRM and Banking Union all had to be established with separate treaties, i.e *outside of the formal framework* of the TEU!

[17] This has become manifest in the debate over EU quotas on migrants proposed by the Commission in 2015.

financial solidity, will test again the incompletely and *unevenly evolving governance mechanisms* of the European Union. In short a pre-emptive and rescue mechanism for non-Eurozone memebers would be needed, else the replication of 2008-2009, with a financial tremor spilling over from non-EMU to EMU members is unlikely to be avoided.

Therefore *much of the institutional innovations are likely to last,* one way, or another. However, the accountability and transparency mechanisms in each of these might and actually must be strengthened, in line with established principles and EU traditions. Sure, the devil is in the detail, but checks and balances need to be established at all levels. The very special political, institutional and economic nature of the EU, which is not even a composite state, must be reflected in the procedures, checks and balances, transparency and accountability of EMU governance also in the future. While both the Europen smester and the Fiscal Compact should be retained, the *automatic sanctioning mechanism*, as well as *cross-compliance* – punishing someone for misdeeds he has not committed – should be *discontinued.*[18]

Betting on the provenly inefficient card of unlimited liquidity provision, as well as on allowing for the moral hazard inherent in *repeated bailouts of private players, being 'too big to fail' is the wrong option*. The currently stalled initiative of chopping up too large financial institutions in exchange for their bailout by public funds[19], should indeed be realized rather than lamed. While this action seems obviously belated by now, thus its implementation is improbable, this should not pre-judge the future. On the contrary, *a prescription on quasi-automatic de-monopolization in exchange for injecting any future public money in banking,* could be legislated and later also imposed, supervised by the joint regulatory arm of the ECB. Also cutting back to size the ambitions of the ECB, returning its practices to the stipulations of its original mandate laid down in its statutes, would be of avail. But what makes perfect economic sense is not always politically feasible, as we may observe in this case as well.

[18] As long as a Greek or a French farmer has only one vote to impress his government, the suspension of farm payment as a sanction on fiscal misbehavior looks misplaced and contradicting to basic concepts of rule of law. Those punished have neither caused the problem, nor do they have an opportunity to improve on it.

[19] Lawmakers fail EU plans to split up large banks. *Euractiv,* 4 Febr, 2015, last retrieved on: 22 May, 2015.

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