ON THE CRISIS OF THE EMU: FAILED CONSTRUCTION, FAILED IMPLEMENTATION OR FAILED CRISIS MANAGEMENT?

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ABSTRACT: This paper offers six theses on the components, roots and consequences of the crisis of EMU and crisis management. Surveying the literature and the most contested claims therein it argues that while the architecture of EMU is basically sound, behavior of the players of the game should seek to take those rules more seriously. Should that happen, reforms allowing for the financial sustainability of the European social market economy are both desirable and probable in the years to come. This piece deliberately avoids discussing issues of global capital flows and their impact on EMU, which is a related subject, but transcends the scope of the current analysis.

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1. There is an overall feeling of crisis in the European Monetary Union/EMU and libraries have been produced on the roots of the *malaise*. The three propositions, equally present in the academe and in the policy discourse, are to some degree mutually exclusive, and to some degree, complementary. But before jumping *in medias res* in discussing each, one needs to observe, that the single currency has proven to be an *unprecedented success in its own terms.* While Helmut Kohl was often ridiculed in his time for the claim that the euro is going to be 'as stable as the D-Mark', this has proven to be the case. None of the dangers feared from the very outset, i.e of *inflation* – over 3 per cent – or *deflation* – i.e. the decline of the general price level, reflected in the HICP – has actually materialized. While for short periods both phenomena occurred, for the period of four[2] consecutive quarters, as defined by the ECB, it has never

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[2] Note that the ECB definition deviates from the customs of the USA, where a contraction of two quarters already counts as a recession. By contrast, the ECB opted for 4 quarters, both for theoretical and practical reasons, the most important among these is the relative unreliability of preliminary data, and also the need to avoid recurring interventions owing to those uncertainties. For a broad discussion of the underlying theoretical and policy considerations, that have led to this option cf ISSING,O. – ANGELONI,I. – GASPAR,V./2004/: *Decision-Making int he European Central Bank-2d., revised edition.* Cambridge-New York: Cambridge University Press.

happened. Annual inflation fluctuated between 0.5 and 2.6 per cent in the period between 1999 and 2014. This is above the pedantic interpretation adopted by the ECB in 2003 – 2 per cent or less. But it is in line with practical policy needs and established financial and business standards, while avoiding the ruinous relapse into deflation, as feared by many especially during the great recession of 2007 - 2009.[3] The external value of the euro – yet another subject of heated debate – though fluctuated between 0.85 and 1.55 against the greenback, but this flexibility has proven right. The cumulated capital and current account balance of the eurozone never went beyond plus or minus one per cent of the total, thus reflecting an ideal – equilibrium – position that tended to be different by the year. Thereby the major requirements set by exchange rate theory were fulfilled.[4]

2. But why is there such *a deep-seated dissatisfaction* in most of the countries of the EMU? Why does the view of Martin Feldstein/1997/ voiced prior to the entry in the EMU so widely shared? As it is known, this was the first elaborate theoretical claim on the impossibility of the entire European monetary integration project, arguing that level of development differences as well as differences in fiscal capacity, rooted in governmental capabilities and traditions, render the entire project impossible to sustain, or if yes, only at substantial costs.[5] The answer is multiple. The latter often equal to mixing up issues that emerge in one or more nations with those attributable to any Community arrangement, more specifically to the stipulations of EMU.

[3] Sources of all data: ECB: *Statistcs Pocket Book*, various isues/available online only/. Some analysts claim, citing the findings of the Bosworth Commission of the USA, that these headline numbers imply in reality a *deflation,* should the US standard hold/with headline inflation being, on average, 1.1 point over actual, final numbers/cf: MOULTON,B. – MOSES,K. – GORDON,R. – BOSWORTH,B./1997/: Addressing the quality change issue int he CPI. *Brookings Papers on Economic Activity,* vol.28.no.1.p305.. But such corrective analyses were made for the US only, whose results should not be mechanistically trasnsposed to Europe. Also, Eurostat is continuously improving its practices, and unless proven, data released by them should be accepted.

[4] OBSTFELD, M./2012/: Does the current account deficit still matter? *American Economic Review,* vol.102.no.3.pp1-23 elaborates on these issuesin more general terms.

[5] FELDSTEIN, M./1997/: The political economy of the European Economic and Monetary Union: political success of an economic liability. *Journal of Economic Perspectives,* vol.11.no.4.pp23-42. This view is the radicalization of the older Mundell-Flemming claim on the EEC/EU not being an optimal currency area. Discussing the libraries of literature on OCA and its applications on EMU would require a different paper of much longer size.

a/ inflated expectations in terms of trade and welfare growth, synchronization of the business cycle and the ensuing real convergence of per capita incomes failed to materialize and even suffered severe setbacks during the recession. Existence of balance of payments surpluses/losses should not be seen as warning signs, since those do exist within federations and confederations, from Germany to China, none of them constituting 'optimal currency areas'. Similarly, trade and capital surpluses should not be equated with gains, while deficits with losses, as under mercantilist theory. Deficits may well be conventional signs of faster modernization by poorer countries, and surpluses may equal to lack of local investment possibilities in richer nations. Division of labor along Ricardian lines thus may well be welfare enhancing for both – and the history of the EU is a case in point.

b/ It has become customary, both for politicians and economists, to blaim 'Brussels' and its alleged orthodox 'monetarism' for basically all the mishaps in the respective national economies. Startling cases in point were the rejection of the European Constitution by the French, Dutch and Irish electorates, basically in order to send a reminder to their respective local political elites, rather than to rectify any real or percieved mistakes in the Treaty proper. Likewise the daunting issue of chronically high rates of unemployment, observed often prior to the crisis, but grossly exacerbated by it, tended to be blamed on the EMU architecture and/or to the workings of the *troika,* managing and often micro-managing the crisis in the defaulting countries. In reality, the EU has next to no competence on labor market issues, and it also is lacking the financial capacity to deal with it, should it have such a project or intention.[6]

c/ EMU has been seen - also by its proponents - much more than a merely monetary arrangement, let alone a technique devised to secure low cost funding for profligate governments. It was clearly understood that if the Feldsteinian propositions hold, the consequences will be ruinous. Namely if national fiscal positions tend to diverge, furthermore if productivity levels

[6] The European Employment Strategy may qualify as such, but this is little more than a set of suggestions, rather than an operational policy document supported by funding. More on that in: van RIE,T. – MARY,I,./2012/: The European Union at work? The European Employment Strategy from crisis to crisis. *Journal of Common Market Studies,* vol.50.no2.pp 335-356.

continue to be vastly different, and last but not at all least, the governmental capacity/bureaucratic ability to manage the macroeconomy over and above smoothing the business cycle, the single currency leads to depression. In other words, the ability and willingness to introduce market-type reforms is the clue to the entire project.[7] *The non-reform scenario, by contrast, was seen to be a clear case of economic brinkmanship*.

But politics- the percieved need to avoid the shame of being left out – prevailed, irrespective of the forseeable costs. Let us note: it would be hard to believe that derailments in 1999-2008 were pre-ordained, done deals, and policy-makers in the southern countries would ineeed not have had any of the options, which were open, say, to their Baltic counterparts, who run much poorer and weaker countries.

The latter aspect tended to go under in the debates over who, when and to what degree actuially fulfilled the Maastricht nominal criteria, and its later, stricter version, of the Stability of Growth Pact of 2005. No wonder, that much of the number-gazing proved ill-advised and misleading in terms of judging the actual – and even less the future – macroeconomic fragility of individual EMU states. Doctoring the statistics, as was later unmasked in several EMU states including France and the Czech Republic, has only contributed to the ensuing disarray. The more economic analysis tended to be confined to econometric exercises and disregarding broader, qualitative, historical, structural aspects, policy traditions and the like, the bigger was the ensuing chaos.

d/ Interaction among ignorance, political instrumentalization and bad economics enhanced by public discourse together arose the impression that Europe's lagging behind the USA is primarily due to the switch to EMU and the related financial orthodoxy. This widespread fallacy spreads by replication rather than substantiation.[8] Empirical studies have long dismissed this

[7] This has been particularly brutally expressed by the German conservative economists, who forecasted a major crisis, should those reforms not be forthcoming. C fin detail in: CASSEL,D.ed,/1998/: *Europaeische Integration als ordnungspolitische Gestaltungsaufgabe.*Berlin: Duncker und Humblot.

[8] More recently int he notable public lecture by Joseph E.Stiglitz/2014/: Can illiberal democracies create shared prosperity? Budapest: Central European University, 10 November.

claim as a factually wrong. More recently van Ark et al/2013/[9] and a book by Péter Halmai/2014/[10] as well as the broad literature cited in both indicate that European convergence to the US had halted already four decades ago, already in 1973. Moreover since 1995 – i.e four years befor the EMU was launched, divergence has become pronounced and sustaining ever since. These alayses demonstrate the pivotal role of structural and institutional factors, such as low IT intensity, slow technological progress/in terms of use/ and overregulation – not only on labor markets – among the fundamental causes. If those claims hold, easy money, proivided via the monetary or the fiscal channel, or both – as actually practised since September 2012 – is unlikely to cure any of the ills.

3. *Managing the crisis has become a source of later, seemingly never-ending crises.* Therefore it can be discussed at least on two levels.
   a/ On the national level, a great variety of specific answers to the challenges emerged. Some of these – as in the case of Latvia, Slovakia, Estonia, Romania, Germany – have proven to be quite effective in limiting the time span as well as the macroeconomic costs of interventions. Still, in other cases – especially of Greece, Italy, France, Portugal and Spain – adjustment policies have proven to be less than satisfactory, leading to procrastination. This in Greece, have translated in contractions exceeding those of the Great Depression of the 30s. But Greece is an exception, not the rule to build a model on[11].
   b/ At the Community level answers tended to be improvized, politicized, following haphazard bureaucratic logic rather than any economic theory, be that Keynesian, Austrian, monetarist or whatever worth mentioning. In short, the logic of „discipline for money”, a rather simple, transparent, but not very efficient idea seem to have ruled. This idea was meant to please the taxpayers of the net contributor countries, who were involved in a

[9] Van ARK, B. – McMAHONEY,M. – TIMMER,M./2013/: Europe's productivity performance in comparative perspective: trends, causes and perceptions. IN: PRASADA RAO,D.S. – vabn ARK,B.eds,: *World Economic Performance: Past, Present and Future.*Cheltenham/UK: E.Elgar, pp290-315.

[10] HALMAI,P./2014/: *Krízis és növekedés az Európai Unióban/*Crisis and growth int he EU/. Budapest: Akadémiai Kiadó.

[11] VISVIZI,A./2013/: Addressing the crisis in Greece: the role of fiscal policy. IN: FARKAS,B.ed: *The Aftermath of the Global Crisis in the European Union.* Newcastle/UK: Cambridge Schiolars Publishing, pp211-240.

series of ad-hoc bailouts. Given that in the vast majority of cases the roots of the crisis, including institutional rigidities, overregulation, non targeted overspending and lack of controls were not adressed, or only with a great delay, it is unsurprising to see that imbalances tended to reoccur.[12] Diminishing current disequilibria often took just a different form or size, rather than indicating any meaningful improvement[13]. This is reflected in an integrated fashion in the growing trend in terms of gross public debt/GDP ratios, which continued to grow also during times of „austerity". The pre-crisis/2007/ level of 67 pc grew to 93.6 pc by 2014/latest available figure/. This is in itself a disproof of the alleged 'too much austerity' or 'too much orthodoxy' claim, voiced not only int he academe, but also in large parts of the European parliament and in national policy-making fora alike.

c/ There has emegred no consensus, neither at the professional nor, let alone the political, level, if the crisis allows for inferences about the *fundamental non-viability of austerity politics?* Or conversely, it calls for even more stringency. In my view, this debate, overflowing most of the policy fora on European integration, is basically flawed. If for no other reason, because it diverts attention from the fundamentals. Namely if, and to what degree, *structural reforms and good quality governance* has been introduced. For it is common wisdom, that these two factors are decisive on the sustainability of any changes, even of the most radical ones. What we observe in the more successful Baltic countries, Ireland and Slovakia is the emphasis on those measures which ensure the lasting improvement in competitiveness. Those may include tax cuts, de-regulation amd most of other usual suspects[14]. In other words: it is not the presence of quantitative easing or the lack of it, it is not the size and scope of the fiscal stimulus – and the related number gazing – but the quality of institutions and the

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[12] TANZI ,V./2013/: *Dollars, Euros and Debt: How We Got There and How Can We Get Out of It?* New York: Palgrave.

[13] An extreme example is the Polish model, where debt and deficit figures do not even remontely overlap. This is explained by the Ecofin allowing Poland to subtract pension expenditures- a large part responsible for the deficit - from debt stock reporting, a practice first employed by France in 1999.

[14] For the more controversial Baltic case cf STAEHR,K./2013: Austerity in the Baltic states during the global financial crisis. *Intereconomics,* vol.48.no.5.pp293- 302.

quality of governance/ macroeconomic policies which has proven decisive for the outcomes, especially in the medium run.[15]

4. The double-dip crisis in Europe – the recession in 2009 was followed by yet another one in 2012 - and the recurring difficulties of implementing decisions on the ground have called attention to some of the structural or constructional weaknesses of the financial architecture of the EMU. The latter have to do with a number of factors, in part related to the *political climate* having reigned at the time of its establishment, in part owing to the *economic doctrines* along which the regulatory frame has been constructed. a/ At the time of launching the EMU the idea of *voluntary rules-abiding behavior,* also in terms of fiscal policy sounded commonsensical. The sanctioning mechanisms were considered to be of minor interest. Not only was the EU conceived as a club of gentlemen. There was also an overwhelming view of the virtue and goodness of fit of the rules-abiding behavior, in fiscal and monetary policies alike. Whenever governments – as in Germany under Oskar Lafontaine's administering the Treasury – went astray from the practices of orthodoxy, punishement by markets was imminent. Thus the prevailing view was that EMU members will follow the EMU rules out of their own convictions and interests, and no supranational disciplinary mechanism is needed.[16] Valid on its own, the opportunistic behavior of France and Germany in 2003-2004 *has created an atmosphere of cynicism and rule avoidance.* This was though not the root of fiscal profligacy in Greece for instance, engaging in an arms race with Turkey and staging the Olympic Games in 2004, obviously beyond the financial capabilities of any small country. Still, it created an environment under which the subsequent Greek governments could get away with regular and recurring cheating of their officially endorsed government statitics/regularly unmasked by Eurostat/. Fiscal like-mindedness could not, and can not, be taken for granted, as decisions on public spending and its pattern is at the heart of any democratic government/best known in the USA/.

[15] This point is emphasized in the comparative analysis of the two ideal types of adjustment, Latvia – the success story – and Hungary – the less successful case in: GYŐRFFY,D./2015/: Austerity and growth in CEE: understanding the link through contrasting crisis management in Hungary and Latvia.*Post-Communist Economies,* vol.26.no.2.

[16] For re-stating these ideas on the post-crisis landscape cf the eloquent argumentation in: KOPITS ,G./2012/: Can fiscal sovereignty be reconciled with fiscal discipline? *Acta Oeconomica,* vol.62.no.2.pp141-161.

b/ *Lack of regulation of private finance*, more specifically of accumulating corporate indebtedness has long been criticized by market players, as e.g. global financiere George Soros, calling it a major flaw of design in EMU.[17] And indeed, according to ECB:op cit we see that debt of non financial corporations in the EMU approximate to that ofJjapan, or 105 pc of GDP, exceeding the respective US value and public debt/GDP ratios alike.
One of the perplexing lessons from the debt crisis of 2007-2009 has been the inadmissability and impracticality of the previous custom/tradition of separating public and private debts via a Chinese Wall. This did not hold, either in theory of in practice. At times of crises public money was used to bail out private banks, while also private money was used – sometimes via coercive arrangements – to bail out bankrupted governments. The two debts are thus, for any analytical purpose, two sides of the same coin.

Ongoing improvements of banking regulation, as e.g the formation of a banking union and joint banking resolution do not address this issue in an adequate manner, since only the largest 200 banks will be put under joint supervision, and that under the ECB, which has a very different mandate.
Le tus be clear: the ECB is a very peculiar construct, just as much the European Union has been, reflecting its unfinished nature/neither a federation, nor just a free trade area/. The establishment of a fully-fledged central bank, with lender of last resort functions, usually does require a political union, what the EU – according to the reformed Treaty of the EU as of December, 2009 is surely not. Thus the ECB can not be entrusted with any function at will. All the less so, since the depoliticized structure of its statute makes its decisions exempt from the type of political accountability, what any major fiscal function –especially re-distributive ones – would call for.

As long as we do not pretend, that it is indifferent, who foots the bill at the final settlement, the ECB can not be entrusted with any fiscal functions. For the latter is at the very heart of any democracy: who pays what and why so.

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[17] SOROS,G./2014/: The future of Europe/interview/. *New York Review of Books,* 24 April.

Entrusting fiscal functions to a de-politicized body must be seen as arbitrary and dangerous.

Finally also the vesting of regulatory functions in what was devisded as a purely monetary authority may raise eyebrows. The regulator is a representative of public good. The public – *demos* – has yet to come about at the Union level. Bellamy/2013/[18] reightly argues that this notion may exists, for the time being, only in plural. His call for *demoicratic* controls, i.e an arrangement in which each participant has equal right and opportunity to control outcomes, is the only viable option. This precludes further centralization, as the transformation of the ECB into a fully-fledged federal reserve would presuppose, especially if banking resolution is also vested in it. Cross-border settling of bills does require watchdogs and dispute settlement mechanisms.

c/ The initiative to *create a fiscal union* represents perhaps an excess in the opposite direction. As it is known, during the management of a crisis a series of arrangements have been created, such as the Six Pack, the Fiscal Compact and the European Semester, which all aim at disciplining national fiscal policies. The unlimited asset purchases of the ECB since September, 2012 have conferred a clear fiscal competence to an EU body, which had traditionally been de-politicized, in order to avoid mingling into its affairs by politicians. These features have further been strengthened by the outright monetary transactions program, involving the ECB in targeted/sic!/ purchases of bonds issued by weaker member states.[19] However, if and when the ECB is engaged in micro-managing debt obligations, with a view to relieve national budgets from its unfavorable impacts, the need for more political supervision – or less operational independence – comes immediately to the fore.[20] The more and broader tasks are assigned to an un-elected body, the broader and more meticulous the accountability

[18] BELLAMY,R./2013/: An ever closer union across the peoples of Europe: republican inter-governmentalism and *demoicratic* representation within the EU. *Journal of European Integration,* vol.35.no.5.,pp499 – 516.

[19] It is hard not to see it as an open form of monetization of debt, strictly prohibited by the statutes of the ECB. It is hardly by chance that the negative ruling of karlsruhe, the German Constitutionsl Court, is being appealed to the European Court of Justice, which has yet to decide at the time of finalizing the current paper. However, in terms of economic substance, the legal interpretation is of little relevance. Those fearful of deflation may even cheer the monetization option as long overdue.

[20] WEBER ,Ch. – FORSCHNER ,B./2014/: ECB – independence at risk? *Intereconomics,* vol.49,.no.1.pp45-51.

mechanisms should be according to the theory and practice of public administration. Supervisory functions vested in the European parliament, where each MEP represents about 800 thousand voters, further with little or no professional support[21], this problem is hardly being addressed in an appropriate manner.

As far as the more traditional items of fiscal policy are concerned, it is perhaps two innovations which are particularly harsh, given the soft, inter-governmentalist construction of the Lisbon Treaty, effective as of December, 2009. *First,* the European semester envisages ex ante co-ordination of major expenditure items- an idea which was seen to be naive from the very beginning. For it was hard to believe from the very outset that, say, the French or Italian government would indeed drop a major investment project, or an election winning distributive scheme, in order to meet the expectations of Brussels.[22] *Second,* and perhaps even more biting, is the innovation allowing for the suspension or even withdrawal of funds – cohesion funds, farming subsidies or environmental financing – should the country repeatedly be found trespassing the joing fiscal rules. The latter arrangement is certainly raising the problem of retro-activity and proportionality, *two basic principles of the rule of law* in any society. If we consider that say, a Hungarian farmer may suffer in his already approved projects for the eventual laxity of governmental spending, on which he has no control over, the trickyness of the innovation becomes quite palpable.

5. One of the most challenging features of both crisis and crisis management has been *the growing gap between EMU-ins and EMU-outs.* This has practical ramifications on a number of planes, political and economic alike. a/ Being part of EMU has a number of overwhelming advantages in both political ad economic planes. The Eurogroup of finance ministers is the place where most decisions take place, rather than in Ecofin or even less in the Council, where enlargement has created a *complexity and*

[21] A regular MEP has only two personal assitant, whereas the European Parliament has jurisdiction over a series of complex professional matters, from regulation of audio-visual substances via migration issues to cohesion issues.

[22] The debate with both governments with the Commission has become a subject of public controversy in October, 2014, with both of them adopting defiant stances despite their signing the Fiscal Compact.

intransparency to an incomprehensible degree – incomprehesible not only to laymen, outside observers, as journalists, but the partipants themselves. As a result, the outcome of complex bargains has increasingly produced results that were not really intended by anybody, at least not in its actual form and formulation.[23] Thus being an EMU-out implies, by definition, *second rank membership*, as the UK has repeatedly experienced. By contrast, being EMU-in allows even for small countries like Slovakia to exert their influence.

b/ Being an EMU-in allows for reliance on *the new instruments of supra-national crisis management*, which emerged over the past years, without necessarily enjoying democratic legitimation[24], as eg the unconstrained purchases of government bonds by the European Central Bank, as well as reliance on the newly established European Stability Mechanism. The ESM is a technocratically managed independent body, allowing for the bailout of major financial institutions, currently controlling over 750 bn euros of joint facilities. While the latter was used to bail out major Spanish, Irish and Italian banks, the former helped overcome the second recession in 2012. EMU-outs can not benefit from these innovations, making both their public and private finances more vulnerable to external shocks.

c/ Being an EMU-in allows all participants to draw on the *well-known financial advantages of a currency union,* as saving on transaction costs, enhanced competition, lower prices, bigger consumer welfare and the like. One may go out at length bringing the examples, but the finding is rather self-explicatory. This factor is particularly important in the non-tradable sector, especially services industries, accounting for 75 per cent of the GDP of EU countries.

d/ Being an EMU-in saves the respective country from the speculation against its national currency and the ensuing risks of *volatility, of sudden stops and capital flow reversals,* as well as of imported inflation. After a temporary dispersion interest rate convergence and convergence of the

[23] Cf the broad account of a lontime insider and former Commission member: BALÁZS, P./2014/: EU 36: the impact of EU enlargements on institutions. In. BALÁZS,P,.ed: *A European Union with 36 members? Perspectives and Risks.* Budapest - New York: CEU Press for CENS,pp 227-256.

[24] As reflected in the clear ruling of the German Constitutional Court of Karlsruhe, declaring the unlimited bond purchses unlawful from the perspective of sovereignty transfer, c fin: *Frankfurter Allgemeine Zeitung,* 14 February, 2014.

yields on government bonds has returned to a common low level, and so did the CDS mark-ups and spreads - the latter reflecting the differential assessment of country-specific risks.[25] Contrary to expectations, prevailing both among theorists and business executives, the EMU *has failed to become a truly irreversibly uniform economic bloc, comparable to a single country,* during the crisis, since country-specific reactions prevailed over the commony rules, both among the good guys and among the bad.[26] This circumstance renders any generalization about ’European responses’ or ’European economic policies’ hard to define, let alone to turn into empircally testable propositions.

e/ Being an EMU-in has also *a number of drawbacks, although these tended to be over-emphasized* in the recent literature. *First,* currency union implies the giving up of the exhange rate instrument, commonly discussed in intoductory textbooks. However, this is less of a sacrifice than it looks, as in more sophisticated economies the impact of devaluations is limited anyway to short periods of time. Furthermore, the transmission mechanism of exhange shocks also changed, eg for Hungary from 0.6 to 0.7 pc in the early eighties to 0.1 to 0.15 by now, meaning that devaluations do not work either wa*y. Second,* a joint monetary policy does not allow differentiated crisis responses. But..is it not the case say, for Sicily and Piemonte? Or Brandenburg and Bavaria? Shanghai and Uiguria?or even: Iowa and Maryland. Per se, this should not be a problem. *Third,* fiscal instruments – especially discretionary ones – can not be used at will. But the more we believe in the longer run ineffectuality of those instruments in generating growth, the less we consider this to be a sacrifice. Lacking a political union the solution is the voluntary and forward looking *adjustment of the expenditure pattern, rather than its size,* when managing the crisis. In the Scandinavian countries, for instance, enhancing R+D expenditures, as well as spending more on re-training people helped create what is by now

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[25] HERNANDEZ-SANCHEZ,A./2014/: Financial integration int he Euro-zone: the case of the banking union. MA Theses defended at the Department of IRES, CEU, Budapest, June, 2014 provides detailed statistical evidence for this claim. The source is available online at the univeristy library website.

[26] BOLTHO,A. – CARLIN ,W./2013/: EMU’s problems: asymmetric shocks or asymmetric behavior? *Comparative Economic Studies,* vol.55.no.3.pp 387-403 and my own reading in: CSABA,L./2012/: Re-visiting the crisis of the Euro-zone: challenges and options. *Zeitschrift für Staats- und Europawissenschaften,* vol.10 .no.1.pp53-77.

commonly known as flexicurity[27], i.e a combination of both goodies economists usually strive for. Unemployment rates in 2014 stand at 6.5 pc in Denmark, 7.1 pc in Sweden and 8.8 pc in Finland against the 11.1 pc of the Euro-zone, let alone the 24.5 pc in Spain or 27.3 pc in Greece/in: ECB:op.cit, .p44/. True, int he overall climate of distrust the open method of coordination, to use the EU jargon, is less effective than it looked a few years ago. But experience of the past years have clearly showed: straightjackets are not a realistic solution either, especially if large players, like France and Italy openly disobey, and the Euroskeptic discourse becomes mainstream in many countries, not only in the UK.

In any event, th ebig question –for theory and policy alike – remains open: how much fiscal policy can attain in matters of structural adjustment? And if the theory of optimal currency areas is no longer relevant as a point of reference, does Confederation Europe really need a huge centralized budget comparable to that of the federal American state, post-bellum? If e follow the ideas of the Nobel Lecture by Thomas Sargent/2011/[28], barely so.

6. The ensuing big question- the central theme of the present conference – is if all the experiences with sustaining and changing EMU are going to *lead – or should lead – to the fundamental restructuring, or even abolition, of the established continental European social model?* Certainly, a lot depends on what we consider to be constituting features of the model, and what counts as auxiliary, a matter of size rather than of substance.

   Should we follow the tradition established in the textbooks on comparative economic systems, published over the past seven or eight decades, *the milestones could not be set in exclusively or even primarily in quantitative terms,* such as the share of governmental spending in GDP, or the share of persons living under the international poverty line. In this reading the defining feature of the social market economy is its *modus operandi,* aiming

[27] FLASCHEL, P. - GREINER,,A./2012/: *Flexicurity Capitalism: Foundations, Problems and Perspectives.* Oxford- New York: Oxford University Press.
[28] SARGENT,Th./2011/: ' United States Then, Europe Now' – Nobel Lecture delivered on 8 December in Stockholm, at: www.nobelprize.org, retrieved last on 17 November, 2014.

and also attaining a fair balance between economic competitiveness and social cohesion.[29]

Time and space does not allow us to stray into the country and model specific assessment of the varieties of European capitalism, as political scientists would name it. What is clear from the summary evidence presented above is a few points.

a/ EU level changes do not require fundamental rearrangements, let alone artificial unification/standardization of various domestic social models, rather than adherence to established basic financial principles;

b/ Prudent macroeconomic policies are not about austerity or the lack of it. Fiscal sustainability though does matter, but viability and growth is contingent upon structural measures and strategic thinking;

c/ The customary practice, focusing exclusively on *number gazing on its own*, not complemented by considering qualitative factors and contextuality, *might be politically misleading*. If policies revolve about magic numbers, substantive features, such as the composition of growth, the generational aspects of unemployment, the efficiency of the system of education – from kindergartens to PhD schools – or the capability and credibility of administration – central and local – may be pushed to the background;

d/ Elections- both national and EU level – have shown a convincing majority for forces favorable to both features of the European social model, namely to *sustaining acceptable levels of social transfers and comittment to the European project.* While media tends to over-rate euro-skeptic and radical protest movements, this has more to do with their visibility, fun and input into infotainment, rather than reflecting major changes in basic societal values. Analyses of the latter – perhaps most extensively by the annual survey of attitudes through the Commission sponsored *Eurobarometer*, but also other, competing publications – show the largely unchanged committment of most of the population to those values. Indeed, with all diversity, the overwhelming feature is the lack of support either for the

[29] I tried to expand on this less than trivial – and msot controversial – theoretical and policy issue in my recent book:CSABA,L./2014/: *Európai közgazdaságtan/*Economics for Europe/. Budapest: Akadémiai Kiadó, pp88-125. There I attempted to compare the German, French and postcommunist models.

demolition of the welfare state along Thatcherite political discourse, or to national seclusion, along the lines of President Lukashenka of Belarus.

Thus, taking the long view, one may tend to agree with the eminent economic historian, Iván T.Berend/2013/[30] who in his recent analysis of European crises calls for the presevation of the European social market model, as a major accomplishment of European civilization, while allowing for the necessary financial and structural adjustments that are necessary for the economic sustainability and vigor of the project as a whole.

On our side we would put perhaps a somewhat different emphasis on the conclusion, while agreeing with the fundamental claim. In our reading, *most of the flaws have been coming from a politically overdetermined and economically narrow mode of crisis management,* not following any clear-cut logic, be that of any economic or political school of thinking. Fiscal adjustment is yet to be made in many large countries in the EU. Furthermore it is more about *its quality than its size*, more about its pattern than about its short term quantitative attinment of jointly set reference thresholds.

While the latter do play a highly useful role in orienting decision-makers – who are, as in any democracy, laymen in their bulk – meeting or missing these should not be the major standard for overall assessment. Rather, meeting the quantitative targets should be seen as a kind of *scope condition*, which help understand how long a way is ahead of us and how much it is likely to cost if we are to make this way successfully. The latter is going to be judged by the respective societies themselves, who have already benefitted tremendously from sustaining the EMU also at times of crisis, rather than allowing for the syren voices to disintegrate it in the name of ad-hoc political considerations.

[30] BEREND,T.I./2013/: *Europe in Crisis: Bolt Out of the Blue?* Cambridge – New York: Cambridge University Press.