Abstract of Andrea Luciani's final dissertation on

The European economic governance's reform

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Since the end of World War Two, the European Union has been synonym of peace and cooperation between countries that have been fighting each other for centuries (as the Nobel Peace Prize given to the EU has underlined). After sixty years of existence the EU represents the most courageous and innovative political project in the world. In fact, the EU is not an economical project; the founders of the EU did not intent to create an organization where being part of it or not depended on the economical or political advantages. The basic idea of the EU is to reach the benefit of everyone through cooperation and to create a community where people of different nationalities, cultures, traditions and languages could recognize themselves as European before than anything else.

The European integration process has not always been linear, but it has been characterized by a continuous fluctuation. In some period progressed with the share of sovereignty (ex: the Maastricht Treaty and the cession to the EU of the monetary sovereignty from the member States), whereas in others stopped. The recent public debt crisis represented a descent curve in the European integration process as well as a moment of uncertainty about the future of the EU and the continuation of its project.

The recent public debt crisis has underlined the danger posed by one country's lack of fiscal discipline to the whole European monetary union. These externalities (economic decisions that tends to overcome national boundaries), generated by individual countries' economical behaviour, had hit the EU badly (ex: Greece debt crisis), especially in its financial and political reputation. This critical situation is due to a problem of governance and credibility that existed before the crisis and that the crisis contributed to highlight. The crisis of governance and coherence in the EU project is now a crisis of the European project itself, in his cultural and solidarity values. Since the creation of the EU this is probably the most delicate moment of its history. If the EU wants to survive this crisis and come back stronger, a solid and coherent economic cooperation is needed.

The dissertation focuses on the answer that the EU and the member States have given to the financial crisis in its European version of public debt crisis, their causes and their consequences.

The dissertation is divided in three chapters.
In the first one, the dissertation analyses the institutional system of the EU as it came out after the Maastricht Treaty and the adoption of the measures contained in the Growth and Stability Pact (GSP). The dissertation concentrates on what were the parameters for joining the Monetary Union in the Maastricht Treaty and at the same time the measures of control and sanction in the GSP, that together form the so called European economic Constitution. After that, the dissertation shows how, in 2009, the crisis has highlighted the weaknesses of the institutional structure that was practically not modified since the GSP, even with the Lisbon Treaty. In fact, the crisis showed the gaps and the weaknesses of the European economic governance: the EU did not have means and tools to answer efficiently to the crisis. These gaps and the weaknesses can be all conducted to the main cause of the general asymmetry of the EU after the Monetary Union: a currency without a State and States without a currency, in the sense that while fiscal sovereignty was hold by the member States, the monetary policy was hold by the ECB. The crisis revealed this system to inefficient: fiscal policy is unlikely to be a perfect substitute of monetary policy. It is an instrument, which is more difficult and slower to activate. Even more, it can provoke externalities over the short period on other countries' economies. And also the monetary policy of the ECB was tied to the control of inflation so these macroeconomic tools could not work together. The principal weaknesses and gaps that the crisis has highlighted are three: the absence of a financial tool for recover eventual situations of default of member States' default and to answer to speculative attacks on the sustainability of public debts; the sanction, control's inefficiency of the mechanisms of the GSP, unable to face symmetric shocks affecting the EU; the fact that the monetary union did not generate the convergence of economies expected. This means that the heterogeneity of the member States' economies do not permit to the EU to answer efficiently to asymmetric shocks. This situation is aggravated by the lack of coordination between member States' economic policies, being the fiscal policies under the control of national governments. So while the rules of Maastricht and the GSP did not leave space to governments to operate freely in their economies, at the same time they did not institute any European macroeconomic tools that could face efficiently the challenges of the public debt crisis.

In the second chapter, the dissertation reviews the measures that the EU institutions and the member States adopted to answer to the crisis. These measures form a general reform of the European economic governance and they represent the effort of correcting and filling the gaps of the economical institutional structure coming from the Maastricht Treaty that initially faced the crisis. They are divided in two macro-categories: budget and coordination's policies and financial help's policies. The first ones include the institution of the European Semester, the Euro Plus Pact, the Six

Pack, the Two Pack and the so called Fiscal Compact. They have in common the effort of establishing limits for the use of national fiscal policies, to stimulate the coordination between them and to enforce the sanctions. The idea is to low systemic risks and spillover effects preventing member States from adopting policies that could damage the whole EU. A really important part of this effort is in the Fiscal Compact, which asks to the States that sign it, to insert in their legal system the "golden rule" of balanced budget for governments and public administrations. On the other hand, the European Financial Stabilisation Mechanism, the European Financial Stability Facility and the most important European Stability Mechanism compose the financial help's policies. They answer to need of having a financial mechanism that could defend the EU and its member States from speculative attacks on public debts and the risk of a national default with its systemic risks. Financed by national resources, these mechanisms represent an important and revolutionary step in the EU integration process. In fact, with their creation, the EU stops being thought only as an organisation of (political or economical) benefits, but also as a community of risks, where the default of one affects directly the resources of everybody else. This share of responsibilities is typical of constitutional systems of federal States. So, in some way, the creation of these mechanisms able to recover critical situations and support member States crisis is a factor of progress in the European integration process.

In the third chapter the dissertation concentrates on the general consequences and institutional implications of the European economic governance reform and also what are the next steps and challenges that the EU and the member States have to face. The implications and the consequences are individuated in six key points. These key points are:

The partial removal of the structural asymmetry of the European economic governance, with the implementation of the fiscal measures of coordination and control as well as a cession of sovereignty to the EU and the share of responsibilities;

The primacy of the functional method in the EU integration that brings the Union to a graduated integration followed more and more from a restricted group of States;

A consequence of the previous point is that the EU integration is more and more flexible, differentiated, characteristics that can be resumed in the so-called different speed integration. The use of international treaties outside the legal system of the EU, the use of the opting out clauses created a Union that can be divided in concentric circles with different levels of integration for each State. This provokes problems of governance in the EU institution that are not made to work in differentiated group as the level of integration are, such as the European Commission or the European Court of Justice;

Even though it may seem that the governmental method has assumed a primary role in the EU decision making process, actually the communitarian method has strengthen its position with the reform of the EU economic governance. For example the Court of Justice has extended its competence to the interpretation and application of the rules regarding Fiscal Compact and European Stability Mechanism. Also the European Commission becomes stronger with the mechanism of reverse majority in the subjects of excessive deficits and macroeconomics unbalances;
The two last points are legitimacy and accountability of the new measures. It is evident that these measures are an answer to an emergency and the majority of them had to be taken, but, at the same time, some of them and in general the whole European economic governance need to be reconsidered, for giving them more legitimacy and accountability. The role of the EU Commission's President and its election are going to be one of the key points of the review in this sense.

The last part of the third chapter focuses on the next step of the reform that the EU is going to face soon: these are growth (to balance the austerity policies, the Banking Union and the stabilisation of the public debts and their interest rates.

In the conclusion the dissertation analyses the results and of the reform's process and it underlines the positive consequences that crisis has provoked in terms of cooperation between member States, structural reforms and the advancement of the European integration especially in the field of economic governance.