Research finding summaries

WP2 Banking Crisis and Financial Stability

Summary of the summary

The establishment of instruments outside the Treaty Framework & EU legitimacy.

- A blurring of the European legal order has consequences for the legitimacy of the entire euro governance structure. This is most clearly visible with the ESM.
- Member States have showed little willingness to open up the Pandora's Box that constitutes treaty change.

Out of the framework, and yet working

- ESM: compliance with the requirements of the conditionality programmes is high since each tranche of financial assistance is conditional upon results. The problem? ESM is overriding national democratic decision-making.
- Fiscal Compact: the results are mixed; in many instances, it has been quite easy to break the rules without consequences.

Impact on the EU's economic framework

- For the moment, the economic governance framework in the EU functions relatively well; past weaknesses of the European Semester have been recognized and addressed.
- Flexibility is an important precondition for the framework's success.

Corporate tax avoidance and evasion while implementing a tax system for competitiveness

- The EU is a determined agent in reforming global tax governance. The policy environment for global tax governance mirrors Europe's own internal complexities.
- Combatting tax avoidance and the promotion of competitiveness are complementary rather than opposing goals.

The impact of decisions and programmes put in place to counter the crisis

- The direct consequences are limited; however, this new institutional framework ties member states further into European governance forms and cycles. The effect: a further Europeanization of member states policymaking.

The societal impact of the MIP

- The MIP is not very well known to citizens at large. The procedure is too technocratic to reach a wider audience. There is often a general sense that "Brussels" is focused on government budgets and structural reforms, but that is not mirrored in a more nuanced understanding of the actual functioning of the MIP.

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The MIP: less coercive and effective than critics and champions say

- The MIP can put pressure on a Member State through monitoring and peer pressure, but in no way represents some type of imposition over national democratic decision-making.
- It is becoming a tool to organise consensus around reform priorities. It should do so primarily with the Member State itself.
- The MIP operates in domains where the EU has very limited "hard" competences.

The effect of the European Semester's in-built bias towards fast-burning crises

- Addressing immediate fiscal imbalances through budget cuts can sow the seeds of future imbalances that are more structural in nature.
- In the early cycles of the European Semester Member States were often advised to safeguard public investment and increase education quality, but such calls were simply overridden by the recommendation to bring the budget back to sustainability.
- Ideas on excluding public investment from the rules of the SGP or officially safeguarding social institution have not yet been formally introduced.

Instability, policy-making and the crises

- The crisis proved that financial stability risks predominantly come from the *inside*.
- The global financial crisis has triggered a wide range of reforms to make the financial sector more resilient and able to fight systemic risks. One of the most important innovations are macro-prudential policies.

The expert networks at the core of the decisions made in pursuit of financial sustainability

- For the MIP: top officials from DG ECFIN have long wanted a macroeconomic counterpart to the SGP. They act and think in accordance with a small group of insider economists.
- The Council has come with its own assessment of necessary mechanisms at the start of the crisis (the Van Rompuy taskforce). While the German Wolfgang Schäuble has been cautious with the MIP, the French Christine Lagarde has been a big proponent.

The networks' influence on European modes of governance

- For the MIP, not one network has driven the mode of governance, but several.
- There has been a relatively broad consensus in the institutions (ECB, Commission, Council and EP) that the MIP should have some bite.

The ideas behind the discourse that accompanied decision-making

- The evolution of the MIP has been a process of learning-by-doing.
- If we focus the European Commission, we see that the approach at the start, both in procedural and substantive terms, has had to be amended.
- Procedural changes have contributed to substantive changes in the discourse on reform priorities.

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ECB fiscal policy ideas inspired self-defeating policies in crisis-stricken countries

- The Trichet ECB's reluctance pushed countries towards fiscal retrenchment across the board. In early 2010 the ECB did not steadfastly commit to repair the damaged collateral function of "peripheral" sovereign bonds. Just as downgrades chipped away at the collateral value of these bonds, the ECB withdrew extraordinary liquidity interventions. In these conditions, governments had to address the disruption of collateral markets for fear that bank runs would wreck their countries' banking systems and take the national economies down with them. European governments and the societies they governed had to pay the price of stabilizing collateral markets via austerity.

The ideational networks behind the rejection of IMF's policies

- Network analysis suggests that the IMF's dominant position (fiscal revisionism) came largely from within its own ranks and so did the ECB's dominant position (fiscal orthodoxy). In both institutions, the most important supplier of orthodox arguments was the Center for Economic Policy Research (CEPR). Outside experts cover a broad spectrum.
- Central banks produce conservative experts while think tanks don't.
- Economists whose professional profile includes stints in academia, government and the private sector are a positively conservative force in the fiscal policy debate.