

EUROPEAN ECONOMIC GOVERNANCE IN THE AFTERMATH OF BREXIT: INTEGRATING OR DISINTEGRATING?

Iain BEGG

European Institute

London School of Economics and Political Science

PHASES OF GRIEF/MANAGING CRISES

- Denial mixed with shock
- Anger
- Bargaining, largely in vain
- Depression as reality dawns
- Testing and acceptance of (often difficult) solutions
- Fire-fighting
- Blame shifting
- Hyper-activity to reform governance/institutions
- Pause to rethink models
- Reaching agreement
- ...then implementing it

CONTINENT IN CRISIS (?)

- Continuing problems of euro governance
 - Inability to agree sequencing
 - The stalled 5 Presidents' report
- Discord on dealing with refugees/migrants
 - Indirect challenge to Schengen
- Terror threats
- Social and political consequences of stagnation
- And now, dealing with those pesky Brits

A PROLIFERATION OF REFORMS

FISCAL DISCIPLINE

- Stability & growth pact
- Fiscal compact
 - National rules
- Two-pack

STRATEGIES PACTS & COMPACTS

- EUROPE 2020
- Euro plus
- Growth & jobs

OTHER MACRO

- MIP
- Macro-prudential
- Banking union

**All this since
onset of
crisis**

PACKAGES

- Social investment
- Youth guarantee
- Climate change

AND...

- Budget 2014-20
- Juncker plan for investment: EFSI

REGULATORY

- Financial sector
- Cutting red-tape

WHAT DOES BREXIT CHANGE?

- Alters balance between €uro-ins and –outs
 - Likely to increase pressures to end derogations
- Diminishes support for external outlook
 - Will TTIP survive as a goal?
- Establishes that defection can happen
- Budgetary resources of EU institutions
 - UK gross contribution *after* rebate \approx €10 billion
 - Gross contribution of EU12 *after* rebates \approx €10 billion
- Crowds out political and decision-making capacity

‘The biggest mistake would be to interpret it as a purely British issue. It is also an EU issue.’

Charles Wyplosz

The EU Pulling Together...



DIFFERENTIATED INTEGRATION

- Already visible before June 23
 - Signatories to Fiscal Compact
 - Participants in banking union
 - Growing doubts about mobility
 - Certainly of unskilled migrants
 - But also of ownership
 - Contagion from the UK
 - Political and institutional
 - Why can't we also be exceptions?
- >> Becomes a “new normal”

OUT OF THE BOTTLE?



LESSONS FROM THE UK EXPERIENCE

- Economists face challenges:
 - Were the (many) warnings well-founded?
 - Did the gravity models get it right?
 - How to explain the current lack of impact
 - Is it just because Brexit has not yet happened
- Most people knew what they voted against...
- ...but not what they were voting for
- New distributive interpretations needed
 - The tension between economic and emotional cases



DECIDEDLY UNEXPECTED ALLIANCES...

IMPLEMENTATION AND COMPLIANCE

- Has long been the Achilles' heel of EU governance
 - Lack of hard incentives: Lisbon/Europe 2020 Strategies
 - Political over-rides: 2002/3 SGP – France and Germany
 - >> Signal to others: you do not need to make much effort
 - And again summer 2016 – Spain and Portugal
 - Similar for excessive imbalances
- The dubious relevance of the semester cycle
- Even EFSI floundering

EVIDENCE ON OUTCOMES

- Fiscal rules becoming more common
 - Especially balanced budget rules
 - Risk of confusion from proliferation
- Quantity of rules only one measure of reform
 - Quality and implementation crucial
 - Tests will come when clear breaches occur
 - Political over-rides
- Continuing lack of euro area fiscal stance
- Extension of logic to EIP?

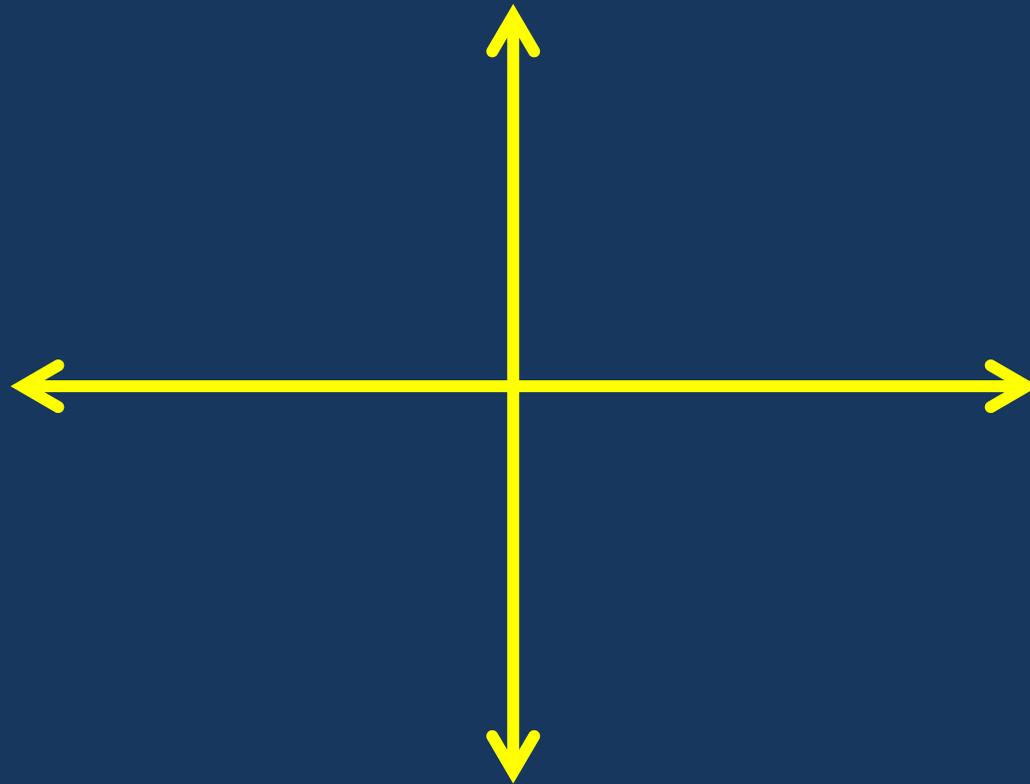
“Useless laws weaken the
necessary laws”

Montesquieu, *The Spirit of the Laws*

RISK OR CONTROL: THE NUB OF THE PROBLEM

HIGH DEGREE OF SHARING

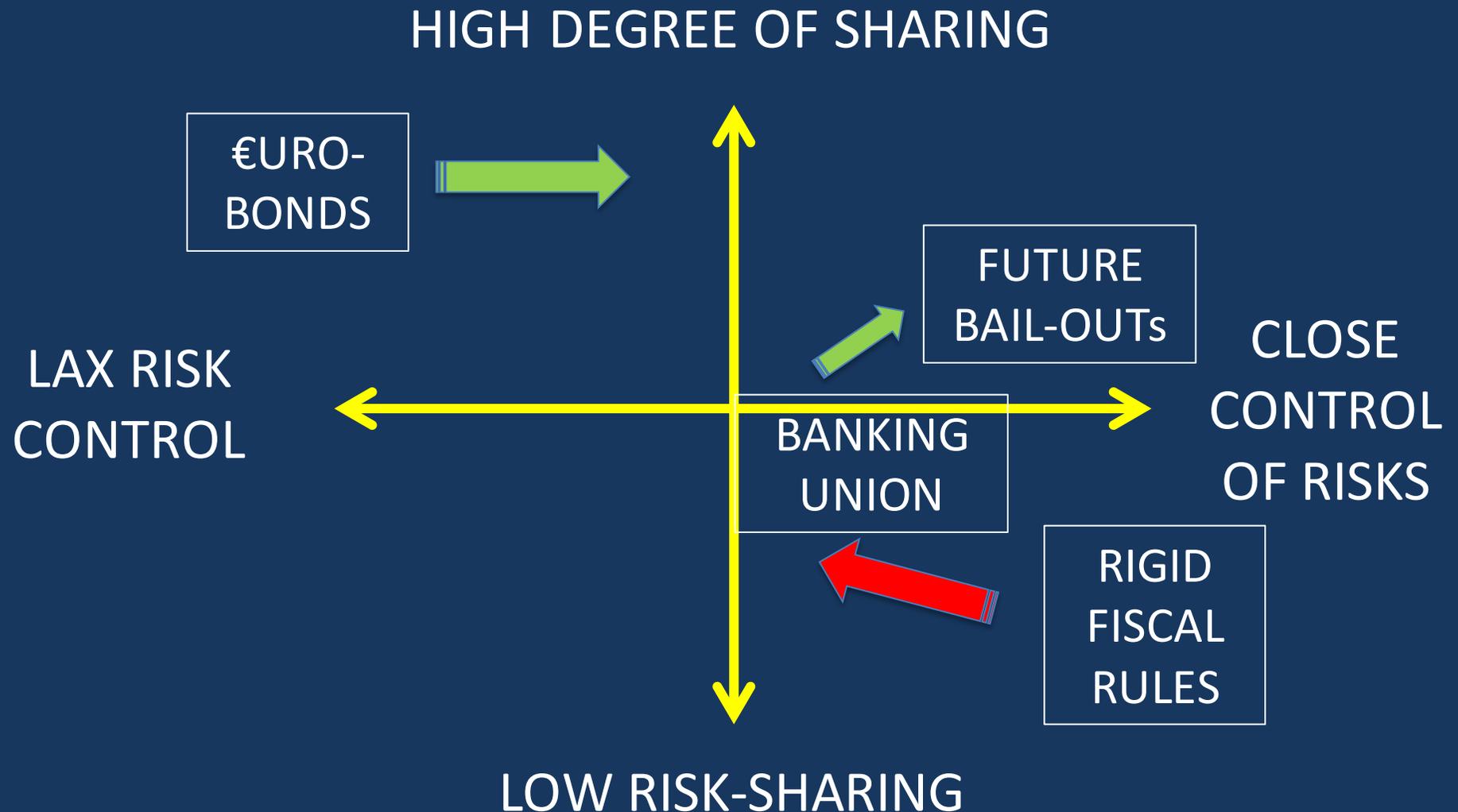
LAX RISK
CONTROL



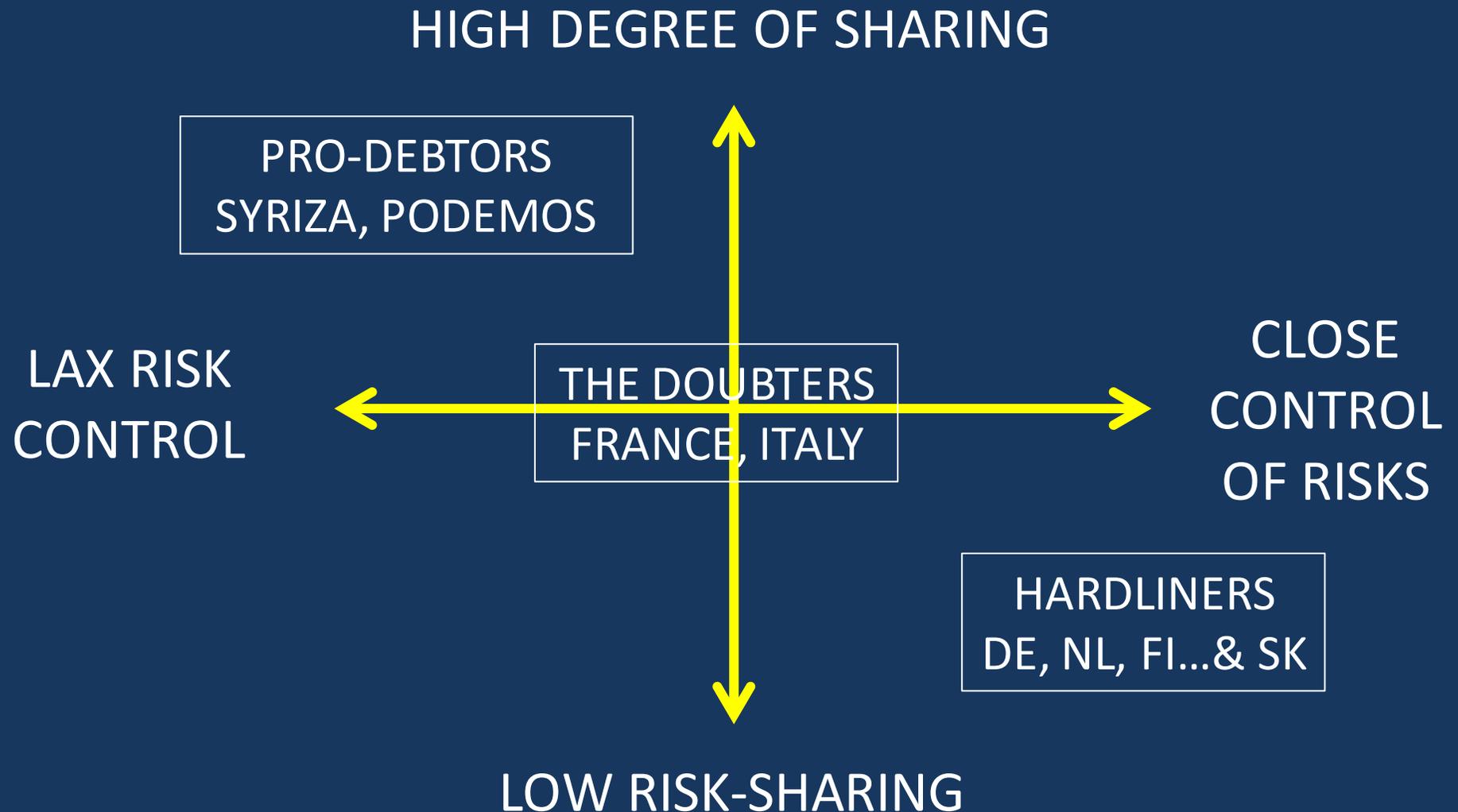
CLOSE
CONTROL
OF RISKS

LOW RISK-SHARING

RISK-CONTROL TRADE-OFF: WHAT?



RISK-CONTROL TRADE-OFF: WHO?



CONCLUDING REFLECTIONS

- Lack of growth still having a debilitating effect
 - Accentuating political risks, including 'reform fatigue'
- New economic/fiscal governance framework
 - Still more on stability (control) than solidarity (sharing)
 - Lacks sufficient EU cross-border commitment
 - The risk that process overshadows content
 - Compliance and appropriateness can be in conflict
- Underlying question about EU integration 'project':
 - Is it a 20th Century success no longer suited to the 21st?

TIME FOR SOME VOTES...

1. Should the rEU be *hard* or *soft* on the UK in:
 1. The article 50 'divorce' negotiations?
 2. Establishing a new UK – EU economic relationship?
2. Should the EU use the 'window' of Brexit to:
 1. Move decisively to closer economic integration?
 2. Formalise differentiated integration?
3. Has the time come to restrict free movement of people inside the EU?

“There are decades where nothing happens and there are weeks where decades happen”

The last word from VI Lenin