



# The Dysfunctional Nature of the Economic and Monetary Union

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## Causes of the euro crisis

- ▶ The basic proposition that:
  - ▶ On-going euro crisis has not fundamentally arisen from ‘bad behaviour’ nor profligate governments;
  - ▶ The crisis is closely related to ‘design faults’ of the Economic and Monetary Union;
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## Design faults of EMU

- ▶ Design faults reflected in the ‘convergence criteria’.
  - ▶ Failure to consider convergence of real variables (unemployment, business cycle).
  - ▶ Failure to consider current account imbalances.
  - ▶ Failure to consider inflation mechanisms and experiences.
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## Monetary policy and the ECB

- ▶ Inflation targeting and the ‘one size fits all’ problem
  - ▶ National differences in labour market institutional arrangements
  - ▶ The ECB and the role of lender of last resort
  - ▶ The ECB and support of national governments’ fiscal policies
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## Fiscal policy

- ▶ The deflationary nature of fiscal policy under the Stability and Growth Pact
  - ▶ The 'one size fits all' problem again with common budget deficit requirements
  - ▶ The lack of fiscal transfers within EMU
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## The necessary reforms

- ▶ Addressing current account imbalances between EMU countries.
- ▶ Policies to resolve those imbalances without resort to deflation.
- ▶ Co-ordination of prices and wages across countries

## The necessary reforms

- ▶ The development of a substantial Federal fiscal policy with tax raising powers, expenditure decisions.
  - ▶ Substantial could entail Federal tax revenues of order of say 10 per cent of EMU GDP
  - ▶ Fiscal policy operated on 'functional finance' lines, not balanced budgets
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## The necessary reforms

- ▶ European Central Bank to be democratically accountable in a framework of policy co-ordination
  - ▶ ECB reconstituted to be fully supportive of the fiscal policies of EMU and national governments
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## Getting there

- ▶ Constraints from need to revise Treaty of Lisbon
  - ▶ Constraints from the neo-liberal agenda of the EMU project
  - ▶ Constraints from ‘starting from here’
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