

# What sort of economic union is needed for the euro to survive?

Lars Jonung

Swedish Fiscal Policy Council

Knut Wicksell Centre for Financial Studies, School of Economics and  
Management, Lund University, Lund

# Starting point

History of monetary unions shows:

Popular support is the glue that holds a monetary union together.

The euro needs popular support to survive.

The number one precondition for survival.

# Starting point

What has happened to net support for the euro during the crisis?

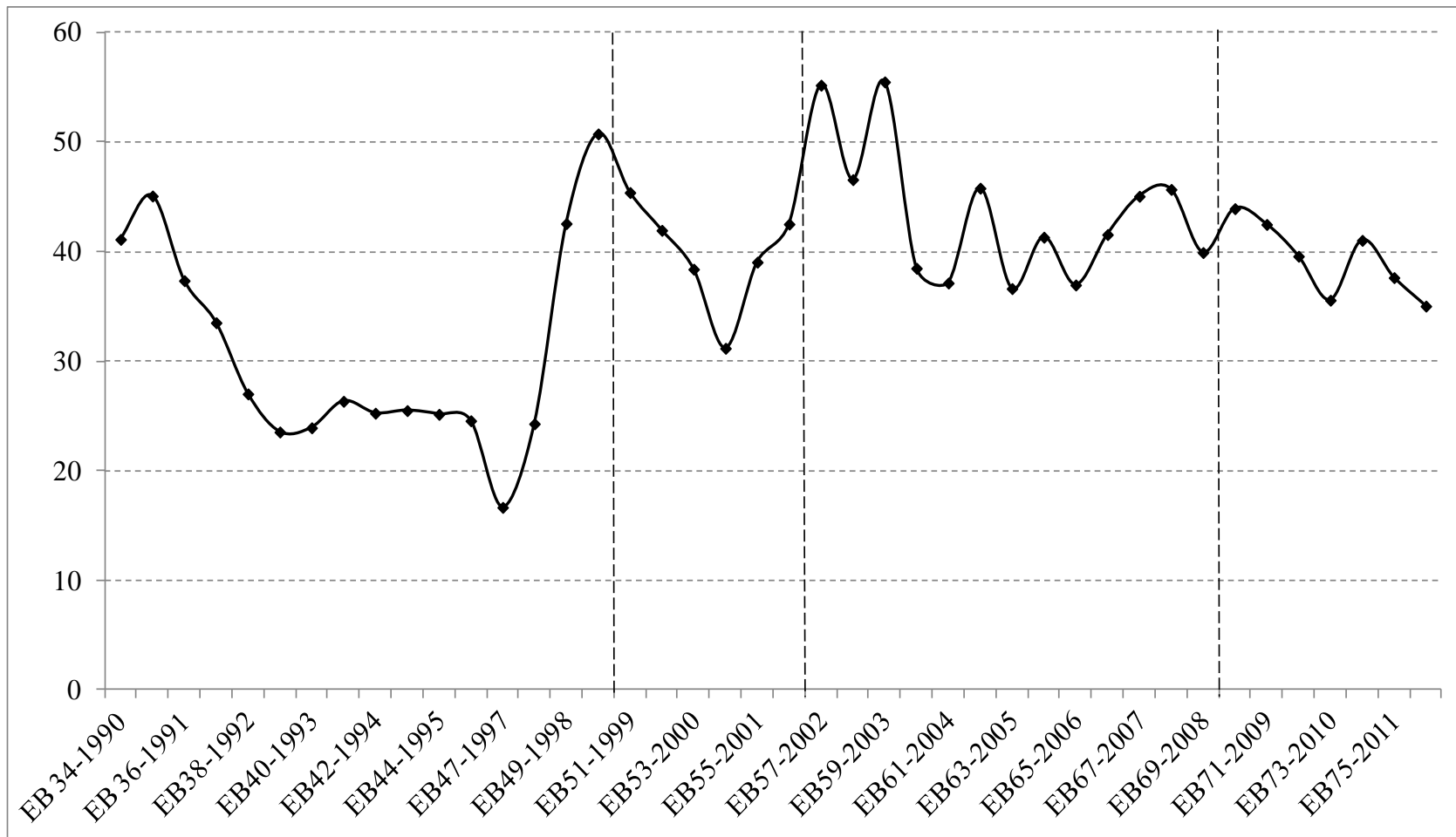
We can answer using a gold mine of data:

The eurobarometer

# Eurobarometer surveys 1991-2012

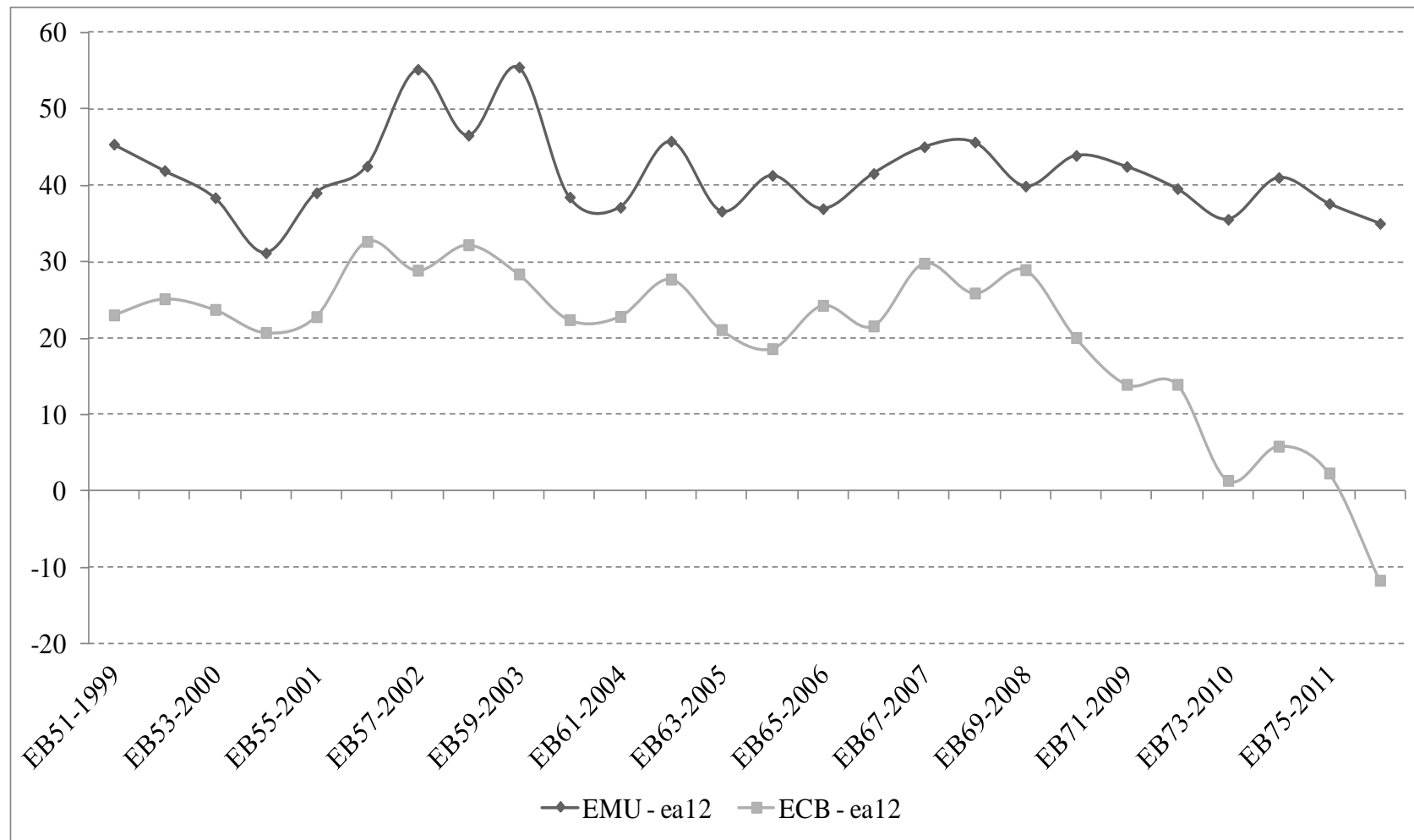
- i) Survey respondents are asked on several proposals “*please tell me for each proposal, whether you are for it or against it or undecided*”
- ii) Proposal “*A European Monetary Union with one single currency, the Euro*”
- iii) Respondent can choose from the following answers: ‘*For*’, ‘*Against*’ or ‘*Don’t Know*’
- iv) Net support (average percentage of net support) = ‘*For*’ responses minus ‘*Against*’ responses; 8% of ‘*Don’t Know*’s on average

*Figure 1.*  
*Average net support for the single currency in the EA-12 countries, 1990-2011*

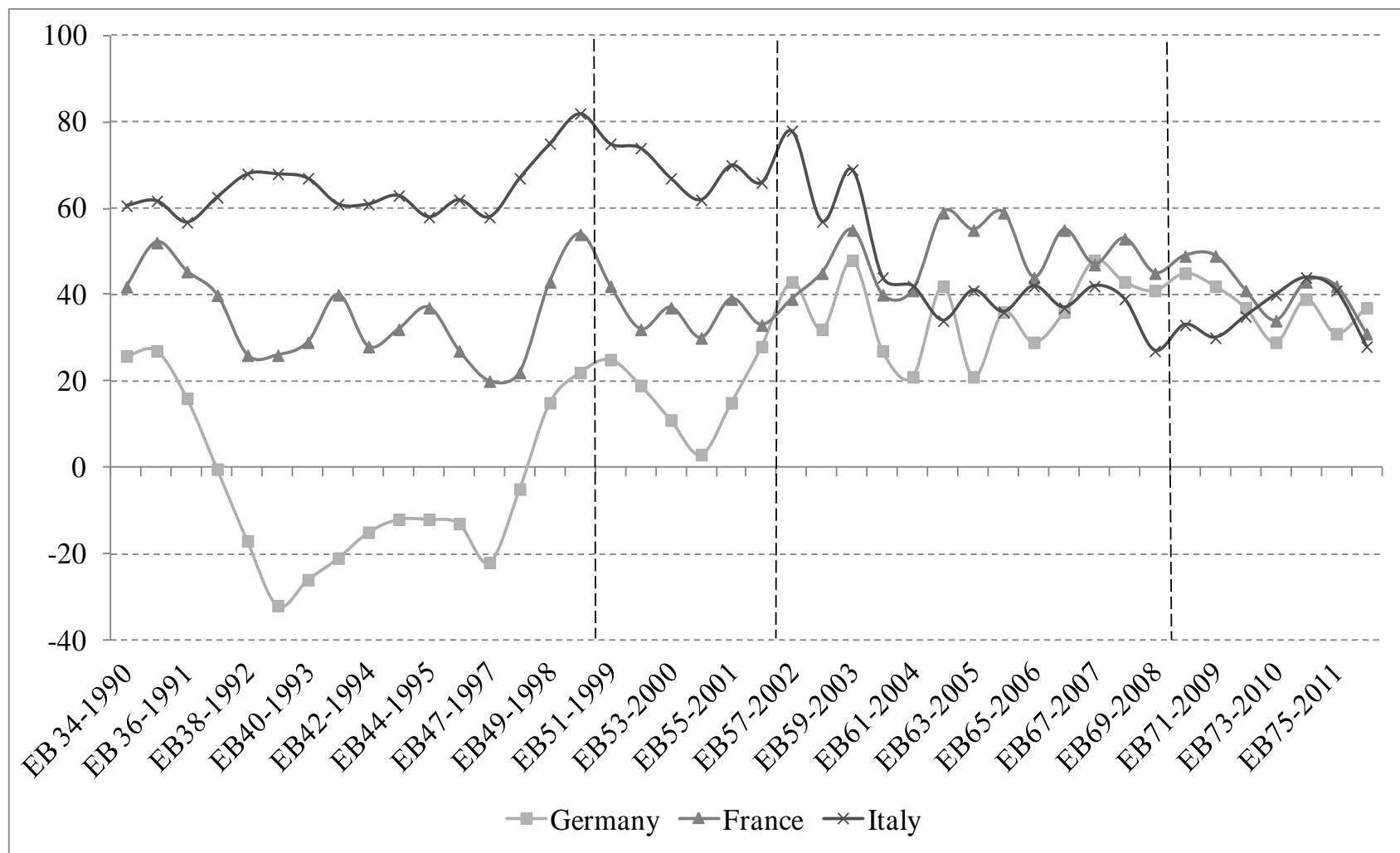


*Figure 2.*

*Comparison between net trust trend in the ECB and net support in the euro, 1999-2011*



*Figure 3.*  
*Net support for the euro in France, Germany and Italy, 1990-2011*



*Table 1.*

*Changes in net trust in national and European institutions in comparison to the euro and the EMU in the EA-12, 2008-2011*

	<b>Spring 2008</b>	<b>Autumn 2011</b>	<b>Autumn 2011 - Spring 2008</b>
<i>Net Trust ECB</i>	29	-12	-41
<i>Net Trust EU</i>	14	-24	-38
<i>Net Trust EC</i>	21	-9	-30
<i>Net Trust EP</i>	27	-4	-31
<i>Net support for EURO</i>	<b>40</b>	<b>35</b>	<b>-5</b>



So far so good ...

But we need a new type of monetary union to make the euro more popular

Two routes:

a. Fiscal discipline through the political system  
(Brussels and Frankfurt)

or

b. Fiscal discipline through financial markets

Both routes are possible. But fiscal discipline through financial markets is the better way to take:

The role of the Commission and the ECB is then to make economic policies more transparent:

Instruments to foster fiscal discipline:

- A credible no-bailout clause

- Fiscal policy councils

- Correct statistics

Fiscal policy should be in the hands of the member states - given a set of proper restrictions, reducing deficit bias.

This will keep the euro within the realm of a democratic society – and increase net support

And it will stop the blame game!

And save the euro.

# What sort of economic union is needed for the euro to survive?

Lars Jonung

Swedish Fiscal Policy Council

Knut Wicksell Centre for Financial Studies, School of Economics and  
Management, Lund University, Lund