

TRIALS, TENSIONS AND TRILEMMAS

Political economy challenges facing Europe

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FIFTEEN CHALLENGING YEARS

- The illusions of the €'s benign first decade
- Followed by a tumultuous one (Pisani-Ferry)
- And just as tensions began to subside:
 - The pandemic
 - Economic consequences of invasion of Ukraine
- Search for enduring solutions
 - Beset by national rivalries and reluctance to:
 - Accept EU (or EZ) level solutions
 - Broaden roles of EU institutions

IMPLICATIONS OF STAGFLATION

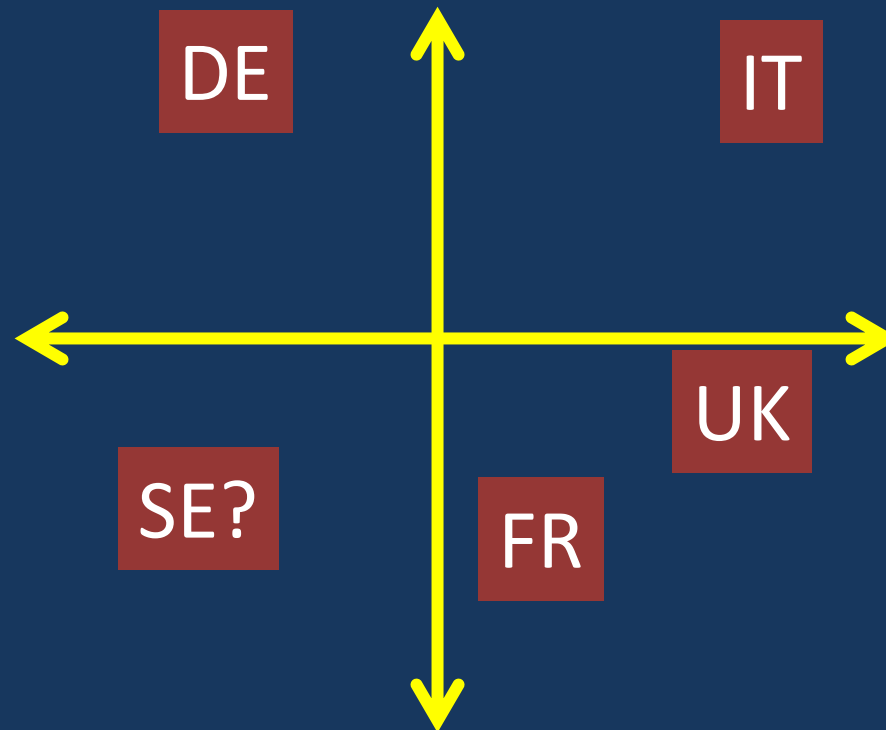
- Recognising the role of terms of trade shift
 - Simp(istical)ly: from energy consumers to producers
 - Key question is how long it can endure
 - Experience of late 1970/early 1980s
 - However, contingent on macroeconomic responses
 - And on speed of substitution of imported gas
 - Dare we say, looking promising...?
- Worries about divergence of impacts
 - Between European countries – UK included
 - Social groups and different sorts of businesses

PRESENT DAY RISKS AND THREATS

ENERGY VULNERABILITY

ROBUST
FISCAL
POSITION

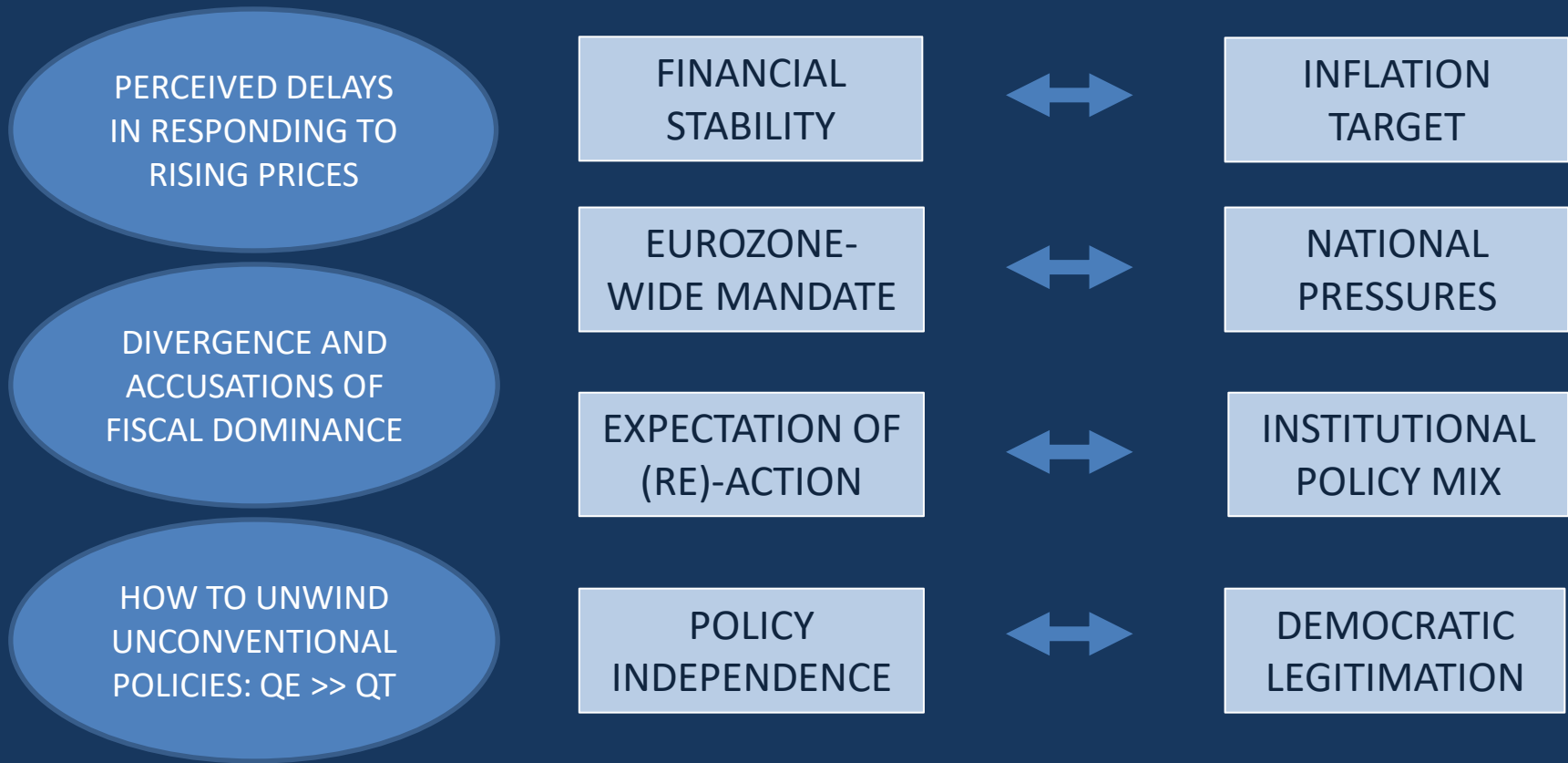
WORRYING
FISCAL
IMBALANCE



WHERE TO
PLACE FI?

REASONABLE ENERGY SECURITY

POLICY DILEMMAS FACING ECB



FISCAL FRAMEWORK TENSIONS

ALREADY WIDELY
CRITICISED PRE-
PANDEMIC

SUSPENSION OF
RULES NEEDS TO
END SOON

NEXT
STEPS
FOR SGP

NO CONSENSUS
ON HOW TO
REFORM IT

ALL AGGRAVATED BY DEEPENING DIVISIONS AMONG MEMBER STATES

FISCAL CAPACITY TRILEMMA

LEADS TO
CROSS-BORDER
TRANSFERS

NEED NOW FOR
SUPPORTIVE
INVESTMENT

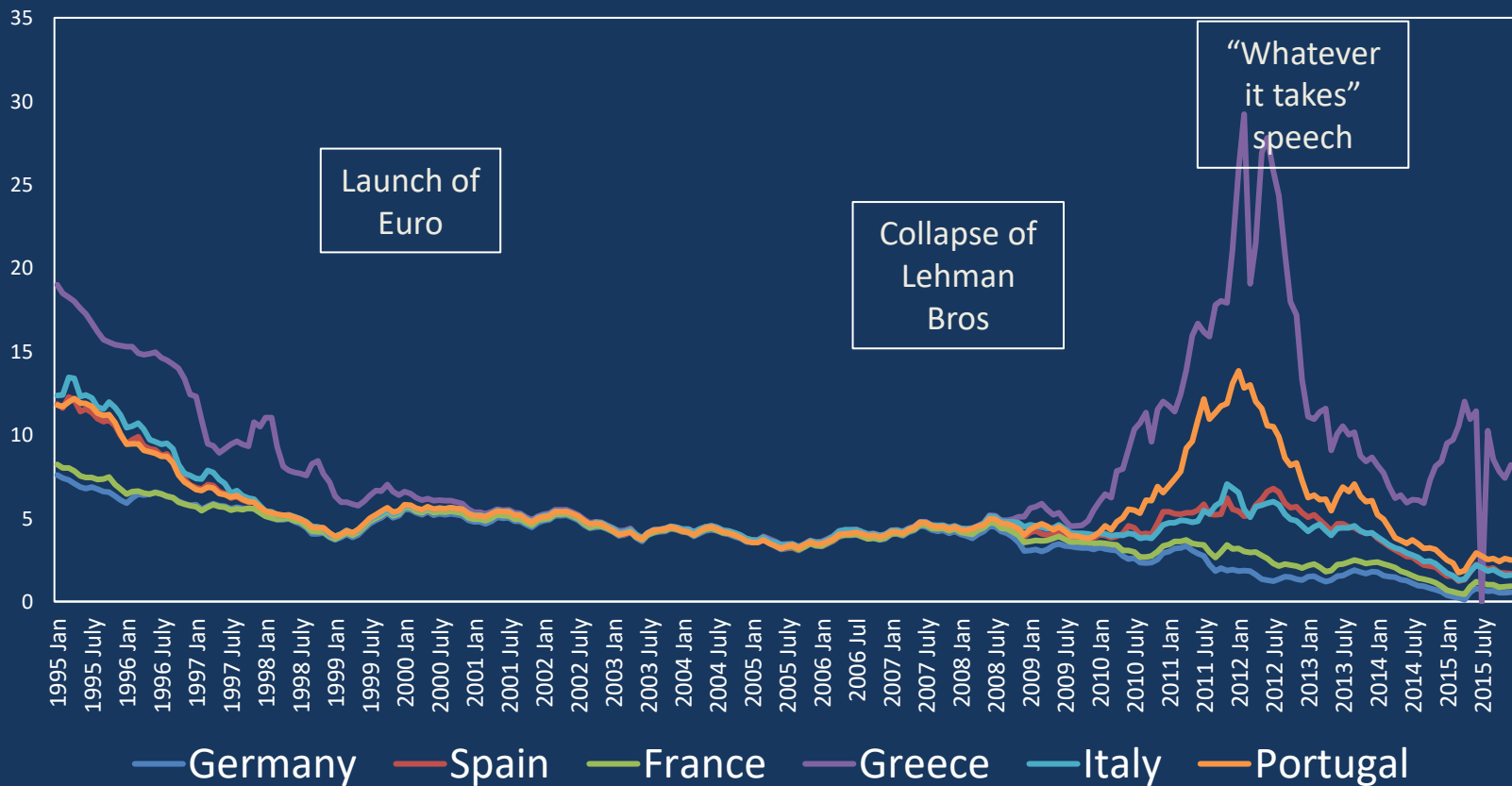
NEW EU
FISCAL
CAPACITY

MORAL HAZARD
WORRIES OF NET
CONTRIBUTORS

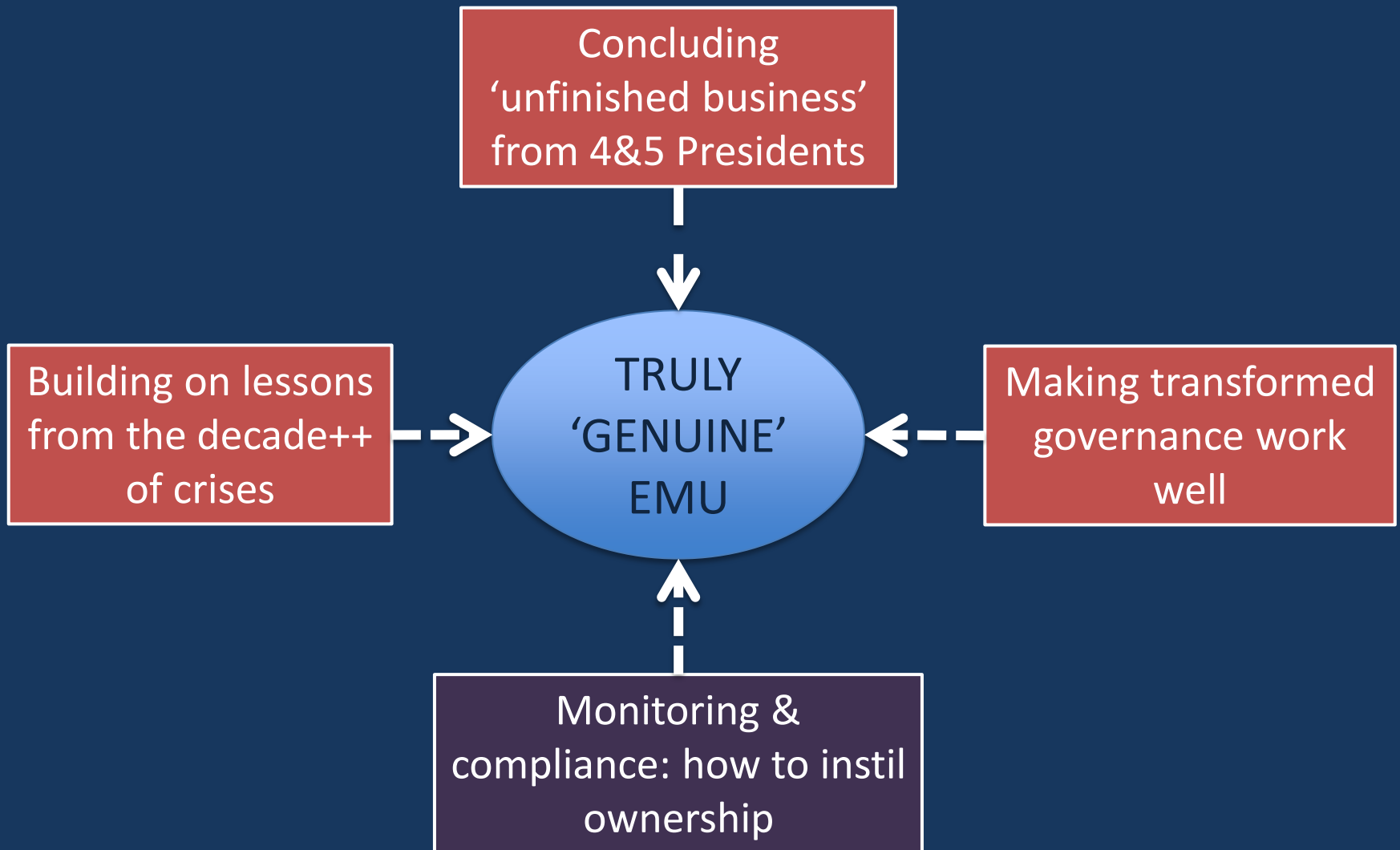
INCREASINGLY TOXIC DISCOURSE AROUND CONDITIONALITIES

THE SPECTRE OF DIVERGENCE

It worked a decade ago, but now...?

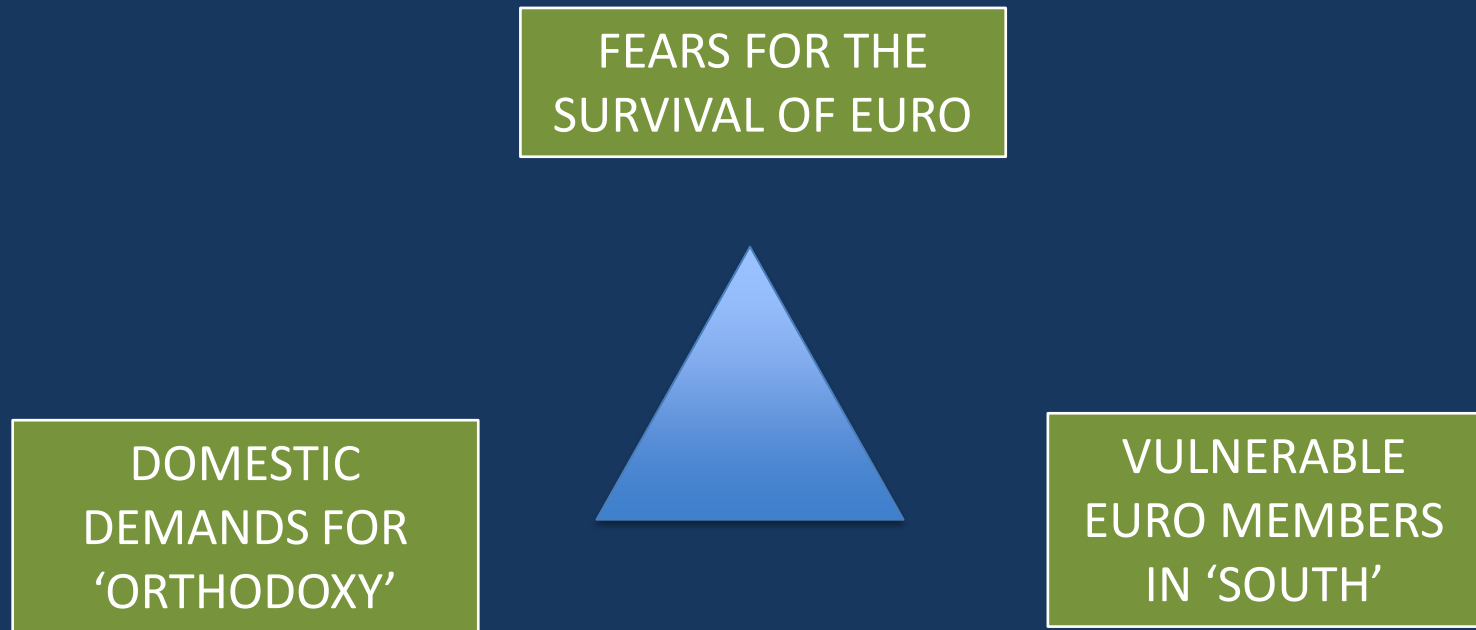


ARRIVING AT A COMPLETE EMU



GERMANY'S AWKWARD TRIALS

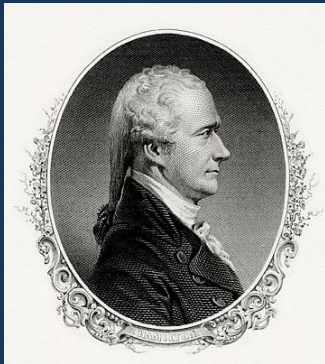
Another trilemma?



WHICH BRINGS US TO NGEU...

- Manifestly a massive shift, above all for DE
 - Not, though a conventional fiscal stimulus
 - Emphasis on the ‘green’ and ‘digital’
 - Slow activation contrasts with cheques to US citizens
- Significant addition to national fiscal responses
 - Certainly compared with paltry 2009 EU contribution
- Open question about breaking of a taboo
 - Is it now, and will it remain, a German preference?

TRICKY POLITICS OF NGEU



A Hamiltonian
moment?

- No, but a ‘Rubicon crossed’
 - Unlikely to be only temporary
- The debate on conditionality
 - CEE sensitivities – especially HU, PL
- Sizeable cross border transfers
 - Benefits ‘club Med’ disproportionately
- Tensions around new own resources
 - Needs large new revenue streams
- Governance favours governments
 - EP marginalised?
- A successor programme for ...?
 - Ukraine, climate transition, ???

SOME ABIDING POLECON THEMES

- EMU is, and remains, incomplete
 - Even banking union, seen as key success, unfinished
- Continuing threats to stability & resilience
 - Wildcards, from Uncle Vlad to populism ... and pandemics
- The hard grind of securing agreement
 - Perils of the lowest common denominator
 - An inclination towards sub-optimal compromises
- Awkward and contested handling of crises
- Continuing doubts about underlying economics

“Anything we can actually do, we can
afford”

Maynard Keynes