Chapter 6

Governance and Institutions for Stability and Growth in the Eurozone

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ABSTRACT

This chapter aims to contribute to the debate on which kinds of governance and institutions are needed to ensure stability and growth in the Eurozone. Despite the economic recovery, the Eurozone does not have effective institutions to ensure stability in the face of a new economic crisis (without forgetting legitimacy, transparency, and the ability to meet the expectations of greater prosperity for Euro-area citizens). This chapter supports the view of a deep rethinking of the European monetary union (EMU) with a different governance and institutions. The new governance should imply a renewed political agreement among member states in both the Eurozone and the European Union (EU). This political agreement must lead to a reconsideration of the Maastricht parameters, a different approach of European institutions, and a change of the EU treaty. This chapter also discusses the role of institutions in balancing European interests with those of member states to provide a consistent approach to stability and growth.

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INTRODUCTION

Financial fragility has been the main cause of difficulties in the world economy, particularly in the Eurozone since 2008. In fact, growth and unemployment in the Eurozone have significantly suffered since the global financial crisis. Along with the financial crisis of 2008, member states of the EMU experienced a debt crisis in 2010 that caused national-level instability. It was both a private and public debt crisis with huge imbalances (Baldwin & Giavazzi, 2015). As showed by De Grauwe (2010), during the emergence of the global financial crisis (2007-2008), the private debt of households and financial institutions increased in an unsustainable way. Bank liabilities increased their debt from less than 200% to more than 250% of gross domestic product (GDP).

However, the crisis showed that EMU’s institutional architecture was flawed. In the last few years, economic conditions in the countries of the Eurozone have improved due to ad hoc crisis management measures, governance changes, and attempts to implement long-term reforms. Today, EMU has gained strength, but it cannot guarantee stability and growth in difficult times (European Commission, 2017b). The Eurozone does not have adequate governance or institutions in terms of economic convergence between Eurozone members. In addition, Eurozone institutions cannot ensure stability in the face of a new economic crisis (without forgetting transparency, legitimacy, and the ability to meet the expectations of greater prosperity for euro-area citizens). The following questions remain:

- Which kind of governance is more suitable for the Eurozone?
- How can stability in the Eurozone be achieved and maintained without a negative impact on growth?
- How can European institutions sustain legitimacy and accountability?

A sustainable currency union requires a governance that guarantees stability and security, coordination and growth of economic policies, and transparent and legitimate institutions. Today, the European Commission, as well as European institutions, are more aware of the needs of a sustainable currency union. However, translating awareness into operative and effective decisions and policies is problematic.

This chapter contributes to the debate on which kinds of governance and institutions are required to ensure stability and growth in the Eurozone. It supports a deep rethinking of EMU with a change to governance and institutions. The new governance should imply a renewed political agreement between the Eurozone member states, but also within the EU. This political agreement must lead to a reconsideration of the Maastricht parameters, a different approach by European institutions, and a change of the EU Treaty. This chapter will also discuss institutions’
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