europeG

Opinion and Discussion Group on Political Economy

"Towards a European Federal Union: monetary integration and political sovereignty"

***Policy Brief* no.1**

March, 2012

1. Revelations of the eurozone public debt crisis

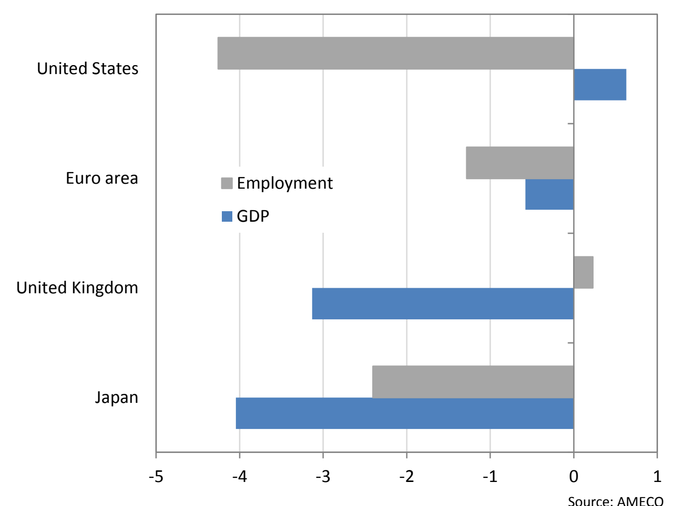
The current eurozone crisis is the main threat to monetary union, to the single market itself and, probably, to the global economy as a whole. In fact, when the world economy was emerging from recession at the end of 2009, the Greek debt crisis struck. This triggered a crisis which extended to the sovereign debt markets in the eurozone as a whole, although the crisis cannot be characterized as fiscal in nature. The punishment meted out by the markets, together with the unsustainability of the sovereign debt of some of the economies considered peripheral, is revealing enormously important shortcomings in the EU's architecture and decision-making mechanisms: they are showing the harsh consequences of an incomplete monetary union. This is due both to inadequate fiscal integration (in terms of the budget and treasury), and to the lack of integration and flexibility of markets, which have led to the frustration of expectations of real convergence and, on the contrary, to the aggravation of imbalances.

Although some banking systems had specific problems, in particular related to an excessive concentration of real estate assets, the spread of the public debt crisis constituted an additional cause of erosion of solvency in the majority. The damage to banking assets has been additional to the liquidity problems existing since the financial crisis began in the US, in the summer of 2007. The collapse of wholesale financial markets and the rise in risk aversion to unprecedented levels have accentuated the contraction in the supply of credit to the real economy, which today affects almost the entire eurozone.

The result is that monetary union continues to be exposed to these "centrifugal forces" generated by financial markets, which have been mitigated by the European Central Bank's exceptional liquidity injections. It is indicative of the severity of the crisis that, in the last two auctions, the ECB has provided nearly a trillion euros in 3 year loans at 1% to eurozone banks.

The consequences for the real economy of this financial instability and of the fiscal adjustment policies are proving severe: they are already apparent in the fact that most of the eurozone economies are close to recession, while the unemployment rate is at post-war highs in many countries. As a result of all this, the European population is suffering very significant reductions in its level of well-being.

Figure 1.- GDP and employment (2007-2011, % change)



The concern felt beyond Europe is therefore reasonable. The eurozone crisis has become the main threat to the growth of the world economy. Overcoming it will require not only a development of

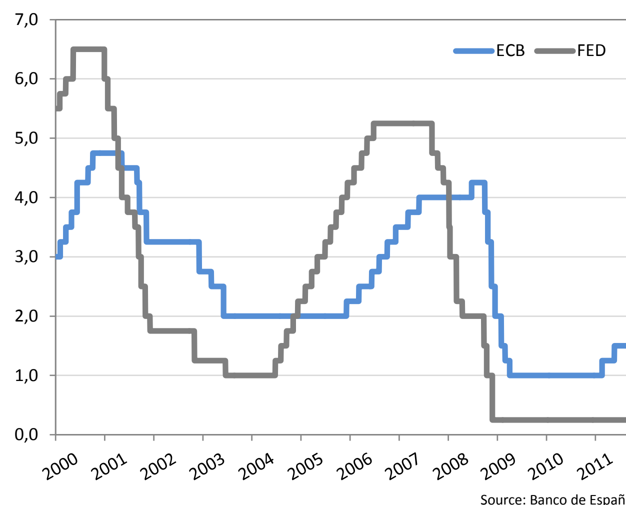
the course traced by the European Council on 9th December, which imposes a requirement of fiscal discipline, but also a recovery of growth in the economies most affected by the recession. This calls for a combination of economic policies simultaneously addressing goals of austerity and growth, which must be possible. The distinction between necessary conditions –the path of fiscal consolidation and stability in the financial markets, in particular sovereign debt markets– and sufficient conditions –the recovery of growth and employment– is clearer than ever today.

The first alternative for resolving the crisis is the breakup of the eurozone. The costs of "no Monetary Union" would certainly be high for the eurozone as a whole, but particularly for those economies such as Spain, which carries on almost three quarters of its foreign trade with the eurozone. Rather than that alternative, the appropriate one is the strengthening of integration, with the provision of the components required for economic and fiscal integration, allowing the transition to the United States of Europe.

2. Original sins in the conception of European monetary union

The eurozone's sovereign debt crisis highlights the consequences of an incomplete monetary union: the establishment of the single currency and the ECB was not accompanied by the appropriate components of an economic union, including institutions guaranteeing a sufficient degree of coordination of economic policies and adequate governance. Now it is easy to see that there was a certain political wishful thinking when the final phase of monetary union was launched. At that time, the only conditions established were those of access, in terms of the nominal convergence of economies, not of the feasibility of the union itself. In Maastricht, it was hoped that nominal convergence would be followed by real convergence: that the single currency on its own would be the real catalyst for more complete forms of integration. It was not to be. The erosion of competitiveness in some peripheral economies, beginning before 1999, was accentuated within the monetary union: the real divergences between the economies sharing the currency were evident before 2008. These were overshadowed by the bonanza experienced by the less advanced economies, now considered peripheral, under the stimulus of historically low interest rates.

Figure 2.- Official interest rates of the central banks



The most relevant academic literature, that based on the "optimal currency areas" approach, prescribes that, within the area made up of countries willing to share the same currency, there must be complete mobility of the factors of production, particularly labour. It is a fact that intraregional mobility does not exist in the area covered by monetary union in Europe today. Workers do not move easily from the most depressed economies to those immersed in a stronger expansion. Mobility is low even within the member countries of the eurozone: when growth was in full swing, and unemployment rates in Catalonia or Madrid were low, there was massive foreign immigration to cover demand in the labour market, at the same time as other regions, such as Andalusia and Extremadura, experienced unemployment rates of 10% or 15%, without the least interregional mobility occurring.

Another essential condition for the viability of a monetary union is a sufficient degree of fiscal integration, an aspect that has been especially lacking during this crisis. The possibility of transfers from the states with the highest tax-raising capacity to the depressed ones –the pooling of risks– is one of the specific features of any federal organization. Regarding the current crisis, it should be remembered that countries entering into a monetary union change the nature of their sovereign debt in one fundamental aspect: they no longer have control over the currency in which it is issued, thereby increasing their vulnerability

to the markets. This situation is not very different from that of the "original sin" characteristic of the emerging economies which suffered the 1982 external debt crisis.

Inadequate coordination of member countries' economic policies has also worked against the viability of the monetary union. Despite the fact that it is formally possible within the community institutions, it has not been achieved. As a result, the differences in economies' competitive capacity have become more pronounced in recent years, as clearly reflected in the relative differences between the member states' levels of unemployment. This divergence has been based on the apparent elimination of exchange rate risk, which has allowed debt (internal and external) to grow well above what is reasonable. The Spanish case illustrates the negative effects of the design: with a need for external financing that reached 11% of GDP in 2007, an increase in private sector debt from 150% to 300% of GDP (between 1998 and 2008) and a significant increase in net external indebtedness (from close to €200 billion in 2000 to almost €950 billion in 2009).

The instability of financial systems, which are highly integrated, has not been alleviated by the existence of common financial supervision. We thought that the euro would make financial integration inevitable. Significant progress has been made in some areas, but not enough in the banking market.

Having lost the monetization capacity of their central banks, countries cannot support their banks without increasing the public debt. The ECB is taking extraordinary measures in this crisis to remedy the liquidity shortages. When its Governing Council met in the first week of December, important decisions were taken in that direction, such as the extension to 36 months of the unlimited liquidity auctions and increased flexibility of collateral requirements.

3. Limitations and mistakes in the management of the crisis

The management of the crisis could probably not be understood without properly assessing what Germany and other countries at the centre of the eurozone consider to be its causes. In their view, clearly influenced also by fear of a default, the root causes of the crisis lie in a clear loss of competitiveness by the peripheral countries, with a substantial increase in their unit labour costs compared with the central countries, and an expenditure in excess of the resources available, reflected in the growing current account deficits. In this diagnosis of the crisis, though the emphasis is on the public sector with regard to the adjustments, the key issue is the resolution of those imbalances.

Figure 3.- Unit labour costs (base 1997 = 100)

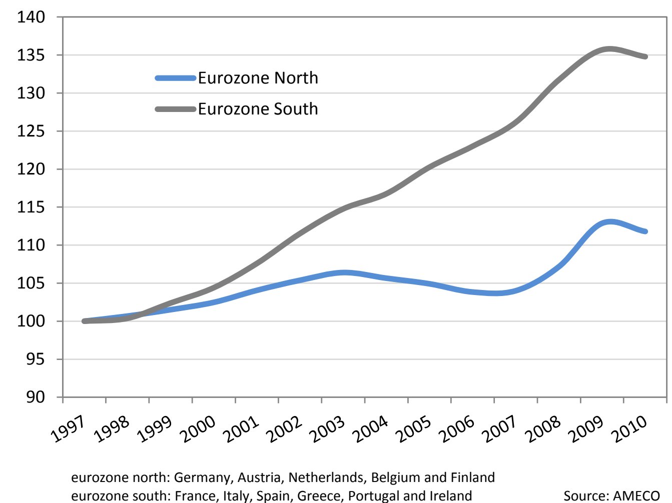
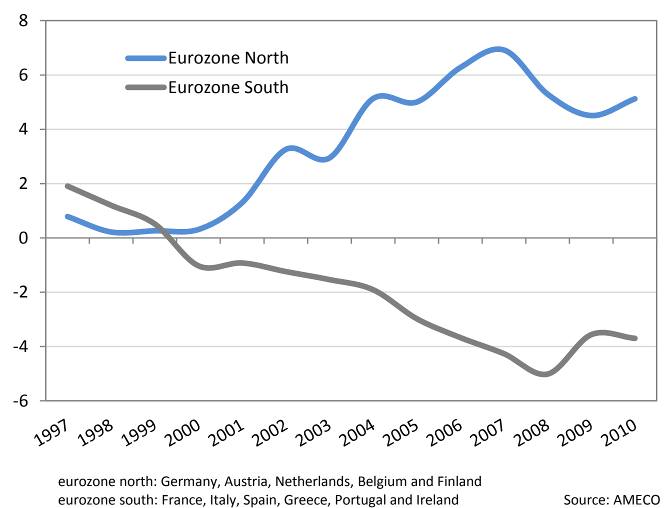


Figure 4.- Current account balance (% of GDP)



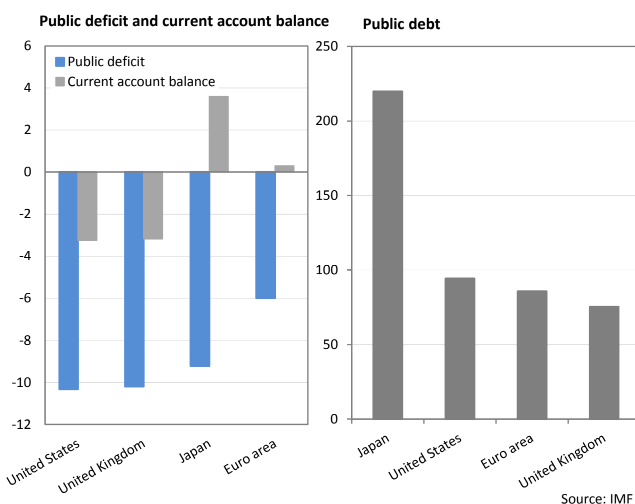
From this point of view, the one which has been imposed in practice, the management of the crisis entailed, initially, putting pressure on the peripheral countries to adopt the relevant decisions, with regard to the resolution of those imbalances. Only when these

adjustments had become clear, should the ECB have been prepared to inject enough resources to resolve the situation, at the same time as the European Council adopted more radical measures in the same direction.

It is true that this vision is correct in many respects. In fact, we have pointed out that one of the reasons why the requirements for an optimal monetary union are not met is precisely the insufficient integration of markets and the inadequate conditions for labour mobility, in order to promote a real and adequate convergence in terms of competitiveness. However, at the same time it is a diagnosis which is, to say the least, incomplete. Without a sufficient degree of fiscal integration (budget and treasury), it will be difficult to prevent the functioning of the single currency from leading to serious imbalances.

In addition to an incomplete diagnosis, the management of the crisis has been clearly deficient. We only have to consider that a problem, such as the Greek debt, which broke out at the end of 2009, when the world was emerging from recession, which could have been isolated and focussed on, has ended up spreading to the whole of the eurozone, and subsequently to the world economy. Today, Europe is the sick man of the world even though objectively, the economic fundamentals of the eurozone as a whole are better than those of other major western economic regions.

Figure 5.- Macroeconomic fundamentals (% of GDP, 2010)

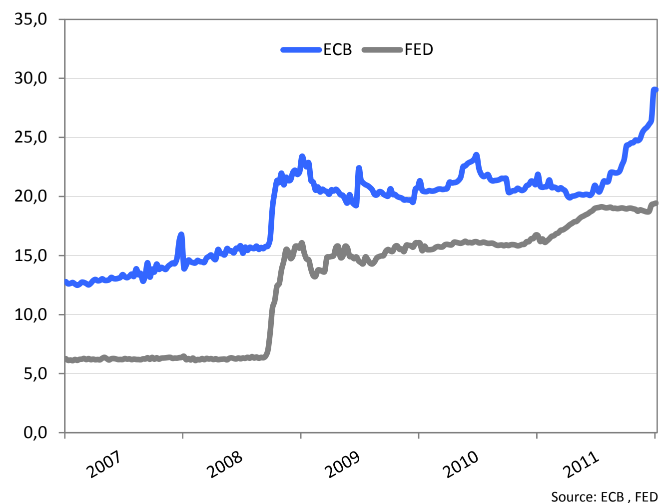


Source: IMF

What the crisis management has also revealed is manifestly deficient governance. The EU's decision-making methods are inadequate to address the seriousness of the crisis. The financial markets take a poor view of the limitations stemming from the requirement for unanimity.

The unique nature of the crisis itself and the absence of protocols for addressing such situations have contributed to the inadequacy and delays of the decisions taken. Perhaps too much trust was placed in the self-correcting capacities of financial markets, whose behaviour has shown itself greatly lacking the complete efficiency attributed to it. The absence of mechanisms for the management of financial crises in the eurozone is evidenced by the mere fact that the first support program for Greece was funded with bilateral loans.

Figure 6.- Central banks' balance sheet (% of GDP)



Source: ECB , FED

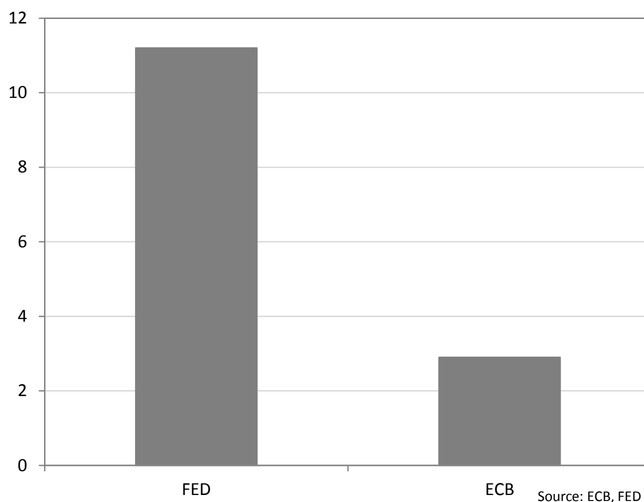
The ECB has implemented quite unusual decisions such as the exceptional provision of liquidity to banks and bond purchases on the secondary market. On the one hand, liquidity management has been implemented through the full allotment of bids in auctions, as well as coordination with the world's major central banks to ensure the provision of liquidity in dollars. In the first week of December, the ECB's Governing Council, in addition to expanding the term of the auctions to 3 years in unlimited amounts, relaxed their collateral requirements and, from January 18, reduced the minimum reserve.

On the other hand, the ECB's second line of action was materialised in the government bond purchase program launched in May 2010 (Securities Markets Programme,

SMP) and extended to the acquisition of Italian and Spanish debt in the summer of 2011. Although initially this activity was a signal of the ECB's attitude to the public debt crisis in some eurozone countries, the effectiveness of those initiatives was limited by the evident discomfort of the ECB, expressed by its leading officials declaring, right from the announcement of the bond purchase program, that they did not like much the idea and their commitment was limited. In addition, the German authorities have been critical, including the federal president himself, who in August 2011 expressed doubts about the legality of bond purchases.

The ECB's actions seem to have got round this restriction by purchasing the bonds in the open market, in the secondary market, rather than directly from governments. Unlike the Federal Reserve's Quantitative Easing policies, the ECB sterilizes these purchases by selling government bonds to banks. This policy on its own will hardly stabilize the financial markets in the medium term. The very uneven weight which public debt still has in the major central banks' balance sheets sufficiently illustrates this.

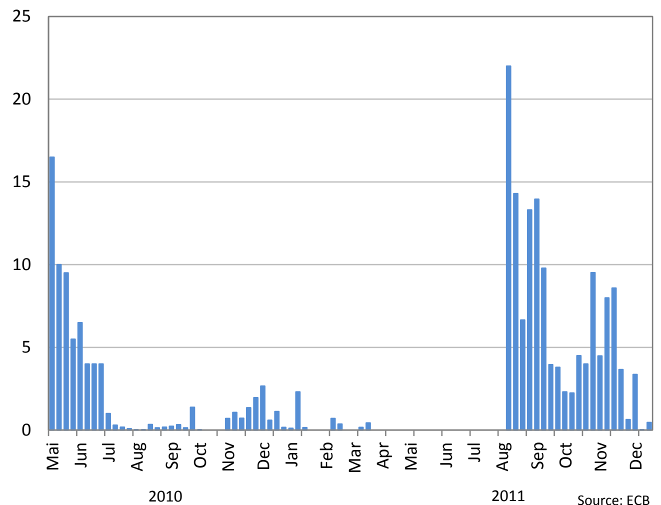
Figure 7.- Purchases of public debt (% of GDP)



Despite the decisions taken in December, the ECB has been reacting to events, rather than taking the initiative from the markets, as it should. Perhaps that attitude can be attributed to tactical reticence, in order to pressure governments to adopt fiscal adjustment and structural reforms: this has been called a policy of "constructive ambiguity".

Within the European institutions, the creation of the European Financial Stability Facility (EFSF), on 9th May, 2010, by Ecofin, aimed to provide financial assistance to member states. Conceived as a transitional instrument, it was destined to evolve into the European Stability Mechanism (ESM) from 2013.

Figure 8.- ECB. Public debt purchases (€ billions)



This instrument has been endowed with powers allowing it to provide loans to countries experiencing financial difficulties. Subsequently, these have been amplified to include intervention in the primary and secondary public debt markets. In the latter case, the intervention will occur once the ECB has issued a report confirming the existence of exceptional market circumstances and risks of financial instability. The possibility of loans to governments for the recapitalization of financial institutions is also admitted.

In November 2011, the ECB's Governing Council decided to accept a greater reduction in principal in the Greek restructuring, and defined the foundations of bank recapitalization. The priority given to the latter is seems to us incorrect. Bank recapitalization should not take precedence over the solution of the public debt problem. In reality, the need to strengthen bank capital is, among other reasons, a reflection of the deterioration in public debt markets. Tensions will not disappear from these markets as long as its participants do not consider the funding mechanisms and firewalls sufficient to guarantee the funding needs of peripheral countries: Italy and Spain alone need to raise €590 billion between them in 2012. Liquidity problems have

been close to causing a serious collapse in the interbank market, in addition to heavily conditioning the flow of credit to businesses. In fact, we have never been so close to the line between liquidity problems and the erosion of solvency in a significant part of the eurozone banking system.

Moreover, to the extent that recapitalisation forces a massive deleveraging, the recession that threatens most of the eurozone economies will deepen. In addition, it is highly likely that public resources will still be required for bank recapitalization, with consequent further deterioration in public debt positions.

In the same European Council meeting, it was decided to amplify the EFSF, through the use of guarantees and financial leverage, with the aim of compensating Italy and Spain's loss of access to markets. It was also expanded to €1 trillion, from the initial €440 billion, intended as a transitional increase which will be made permanent through its transformation, as noted above, into the European Stability Mechanism (ESM).

The ECB itself considers that this transition has to happen quickly so that it can take over from its exceptional activities in the bond markets. Until now, the ECB has also opposed the idea of the EFSF accessing its liquidity, which would allow large-scale bond purchases. The president of the Bundesbank has rejected this unequivocally: it would mean "monetary financing".

Together with the tardy, and not always consistent, actions of the ECB, this crisis has also revealed the need for closer coordination of its activities with financial systems.

4. The necessary transfer of fiscal sovereignty

Sharing risks, pooling them among participants, is the principle which must guide the search for solutions, not only the solution to this crisis, but the strengthening of other forms of integration. This pooling of risks requires twin approaches, which must be addressed in parallel. In the first place, those countries with serious problems and imbalances have an obligation to lay the groundwork to correct them. Secondly, once the previous process has been clearly defined, the transfer of political power from the member states to the EU is the immediate counterpart to the necessary pooling of sovereign risks, but in no way does its role end there. These two approaches are inseparable. Indeed, there are political constraints that cannot be ignored. For Germany, the Netherlands, Austria and Finland, for example, it is difficult to make progress in this pooling without first firmly establishing measures for resolving the excesses accumulated in the first decade of the century. Similarly, there are political limitations to the sacrifices and severe austerity measures which can be demanded of societies in those countries with the greatest imbalances, if they cannot be persuaded that they will see light at the end of the tunnel. In other words, if it does not propel them towards a recessionary vicious circle.

This is necessary to reduce the risks, or at least to minimize the impact of any future shocks or financial crises. It must not exclude going further with other kinds of actions which similarly advance the fiscal integration today considered a priority. The transfer of sovereignty in the field of taxation by the states sharing the single currency should not be less than that corresponding to federal organizations. Tracing the design of a more committed fiscal integration is the way for the monetary union to recover the credibility lost in this crisis.

As with any risk pooling system, the greater the diversification of fiscal integration (the less correlated income shocks are in the short term), the greater its feasibility and the advantages it generates.

Member countries will have to renounce a part of their sovereignty which, though very significant, is not really available in practice, as the current crisis is demonstrating. The harmonization of different taxes would be an essential element in this respect as this process develops, even though countries would retain a high degree of autonomy.

In fact, a country's main sacrifice is its complete discretion in designing taxation and spending policies on the basis of its specific needs. At the same time, countries have to accept close coordination and subordination to the interests of the majority in such key aspects of the governments' decision-making capacity as the structure of public spending and public revenues.

Similarly, they will have to submit to common requirements with regard to closer coordination of other economic policies. In those economies, such as Spain, with imbalances caused by a deterioration in competitiveness, progress is needed in reforms to strengthen productivity, largely responsible for the differences between countries that this crisis has revealed.

5. Institutional mechanisms for the transition to fiscal integration

The goal has to be fiscal integration, at least for those economies making up the eurozone. Such a union is a destination on which many EU countries can converge, but right now ensuring an orderly and rapid transition is just as important as the final goal. This is the key to definitively overcoming a crisis which is closely linking the depreciation of government bonds in many countries and of banking system assets in the whole of the eurozone.

We believe that, once the countries have accepted the demands defined in the European Council of 9th December, it will be necessary remove the threats that still hang over the markets. The creation of a common financial authority, the embryo of a European treasury, would facilitate that equally necessary pooling of debts among those states committed to the goal of fiscal integration.

It is similarly necessary to grant the ECB greater room for manoeuvre in order to offset the operational inadequacies of public debt markets. This institution should fulfil the role of lender of last resort. The reform of the treaties, in any case, could be circumvented, as Paul De Grauwe proposes, by the ECB assuming the commitment of lender of last resort to governments. In addition, the mere fact of announcing it would mean that it would not need to buy many bonds, at least as long as the EFSF does not become a true European Monetary Fund or a European Debt Agency. For all these reasons, the ECB should be explicitly responsible for the preservation of stability in the eurozone during the transitional period leading up to the reform of the treaties. The EFSF's resources could be provided directly or indirectly through contributions by the ECB and other international bodies, including vehicles channelling investments from other countries.

The increase in amounts and terms recently implemented by the ECB for its auctions to banks is not proving effective enough. The high levels of banking debt maturities and the sense of dysfunctionality that continues to dominate wholesale funding markets is preventing this extraordinary liquidity from being converted into credit to the private sector or significant acquisitions of sovereign debt, although the reductions in Spain and Italy's risk premiums since last December suggest that the growth of credit to the financial sector by the ECB is slowly beginning to filter into the sovereign debt market. The solutions being imposed, therefore, will enhance the functions of the EFSF: its capacity to intervene directly in public debt markets, which today still constitute the main obstacle to overcoming the eurozone's economic and financial crisis.

The ECB must also monitor bank credit growth in the economies under its jurisdiction, in close coordination with member states' financial supervisors.

In this transition, the financial adjustment strategy (controlling public deficits) should not be incompatible with economic recovery. In reality, as some international institutions have suggested, the credibility of policies aimed at medium-term fiscal consolidation can be compatible with short-term economic stimuli.

In this transition, it is similarly necessary to reinforce the coordination of economic policies in order to reduce the asymmetry between a centralized monetary policy and the decentralization of other economic policies.

6. Towards a European Federal Union

The proposition made by Jacques Rueff in 1949 remains valid today: "Europe will be made by the currency or it will not be made". The European Union's goal must be a complete federation.

Conviction, and firm steps in the transition toward greater political integration, are the best signals that EU institutions and national governments can send the financial markets. In fact, and even if this is perhaps

something of a paradox, the markets are crying out for policy measures which show the strength and irreversibility of the European project as a political project. Moreover, this would reinforce its political legitimacy, today questioned by many European citizens. A greater degree of political union is a necessity if monetary union is to be preserved.

In this respect, history reminds us that there is no currency without a state, i.e. without a political power to back it up. That is why the great challenge today is to provide the European Union with genuine federal structures. This means that, in the field which we are analysing, alongside the currency and the European Central Bank (certainly an institution with an authentic federal outlook), there must be a genuine fiscal integration (including both budget and treasury) and also a true integration of certain economic policies.

Integration implies taking a step qualitatively different from that of policy co-ordination or the adoption of intergovernmental agreements. Just as the ECB does not coordinate policies, but rather is the Community institution which takes decisions and has full responsibility in the field of monetary policy, we must move forward in this same direction with regard to fiscal and budgetary issues (including, of course, the treasury) and responsibility for certain policies, such as those relating to the regulation and supervision of the financial system.

It is clear that fiscal integration will never reach the degree of exclusivity of monetary integration, inasmuch as while the ECB has the monopoly of monetary policy, it is simply unthinkable that a European federal government should come to absorb all the budgets and fiscal responsibilities of the states of the Union. However, monetary union will remain incomplete and unstable while there is no European government with a budget and a treasury capable of playing the role that they do in those federal countries that might serve as a reference.

It is true that progress in this direction may be gradual. There may be a transitional period in which the centre of gravity of decision-making with regard to taxation lies more in intergovernmental institutions than in Community institutions (of a federal nature). In fact, this is what is happening right now. As we have pointed out, it is probably inevitable. However, the intergovernmental formula is feasible only if it is clear from the outset that this is a path to achieve the objective of political integration, and not the final destination.

Of course, along the way, as the centre of gravity shifts to this European Federal Union, the transfer of sovereignty (i.e. political power and decision-making responsibilities) will be possible only if it is accompanied by the transfer of democratic legitimacy, which today is clearly insufficient in EU institutions. Only thus will European citizens accept it.

In the opinion of EuropeG, this is the only option that can ensure the success of monetary union. If this scenario proves impossible, and it is true, in reality, that the political obstacles are enormous, then there are two alternative scenarios, which are in fact diametrically opposed. The only thing they would have in common is that they would both certify the failure of the monetary union.

The first of these scenarios would be that of a European Union governed on a permanent, rather than transitory, basis by institutions of a primarily intergovernmental character, which means by the French-German duo (on the face of it), and by Germany in reality. In practice, that would mean that the movement of the centre of gravity which has taken place in the last few decades would become permanent, and ultimately the failure of the European project, in the heart of which lies the essential Community spirit.

Such a scenario is far from stimulating, of course, but cannot be ruled out, by any means. This is the scenario of a German Europe, against which Adenauer, Kohl and Schmidt fought (the latter, by the way, has just made his opposition to this option crystal clear). The possibility of events moving in this direction cannot be excluded. However, it would be an unstable scenario, difficult to accept politically and which would end up making the survival of the single currency, as we understand it, very difficult. In other words, as a currency that expands its use and extends its influence, and not as the currency of a steadily shrinking part of Europe.

The second of these extreme scenarios is that of the fracture, the explosion, the break-up of the eurozone. Today, contrary to what was happening not so long ago, this is not an unrealistic hypothesis, and this fact alone is very significant, because when something it is not

unrealistic, it begins to be possible. It would mean that the weakest countries, faced with the impossibility of carrying out the adjustment needed for the real economy to recover competitiveness, due to the sacrifices involved, to the popular reaction that may occur, and, finally, to the rejection by a majority in their societies, decide to leave the euro and devalue their currencies.

It is clear that this alternative, from inside the euro, has consequences of such significance that it is difficult even to imagine. It is one thing to assert that, if we could go back in time, the uncompetitive countries would have been better off outside the euro, and quite another to talk of leaving the eurozone once they are in it. It would pose problems of the first order in obtaining funding from the markets (and we are talking about heavily indebted countries, which must meet substantial bond maturities every year), and also, probably in terms of inflation, and a probably unmanageable revaluation of debt denominated in euros (or other currencies). But it is not an impossible scenario, by any means, and some may begin to think seriously that this alternative is preferable to the previous scenario.

Of course, this sub-scenario, in turn, supports different variants depending on how many countries remain within the eurozone, and under what conditions. In any case, the European Union as a political project, and the euro as an expression of monetary union, would be dealt a fatal blow.

As a result, the institutions have to change to reflect the necessary strengthening of the integration dynamic and the adoption of more flexible decision-making processes. At the same time, as has already been pointed out, the EU's governance mechanisms must advance firmly toward a reduced importance for intergovernmental agreements in favour of genuine Community institutions. The political power of some states cannot be prioritized to the detriment of others, nor can intergovernmental bodies be prioritized to the detriment of truly "federal" institutions.

In particular, the required fiscal integration cannot be the sort of "guardianship" of national budgets by those intergovernmental bodies which, as experience is demonstrating, means German monitoring, accompanied by the French government. The transfer of powers to the "European government" required by the federal strengthening of fiscal integration must not be incompatible with the existence of margins of significant autonomy for the member states, nor will it be viable if it does.

The European Council's 9th December agreements are minimal. The progress made at the informal European Council meeting at the end of January 2011 has put more detail on the terms of the new international treaty that would bind practically all the EU countries, with the known exceptions of the UK and the Czech Republic. The imposition of a strict fiscal discipline (including its inclusion in the constitutions) and economic convergence have been made more specific. Hence that emerges as a kind of counterpart, in terms of greater fiscal integration, to the eventual greater flexibility in the ECB's role and the expansion of the rescue fund. The German authorities seem to be closer to being satisfied with the concessions of those states with the most "spendthrift" governments. Now, the availability of adequate rescue mechanisms or some other form of debt pooling is totally necessary, in addition to enabling the ECB to intervene more aggressively in secondary bond markets. These should be the starting conditions for a strategy much more geared to economic growth in the eurozone. They require the strengthening of institutions and the effective participation of all subscribing countries, abandoning the excessive "intergovernmentalism" which has predominated until now. The culture of austerity and its demands are valid, to the extent that it means sobriety, the elimination of the superfluous, but not the suffocation of the possibilities of growth. Economic policy can and should make both objectives compatible.

Having addressed the consequences of an incomplete monetary union, in forthcoming papers we will analyse the alternatives to the European option which has accorded priority to austerity over economic growth. In addition, we will analyse the options applied in the Spanish economy and the need to carry out adjustments in real terms, aimed at the recovery of competitiveness within a monetary union, i.e. with no possibility of resorting to exchange rate manipulations.

Let us trust that this crisis will adjust to its literal meaning and represent an opportunity to strengthen the dynamic of European integration. Let it be true that

Europe advances in times of difficulty. As Jean Monnet said, "Europe will be forged in crises and it will be the sum of the solutions adopted for those crises".

References

DARVAS, Z., PISANI-FERRY, J., SAPIR, A. (2011).- A comprehensive approach to the euro-area debt crisis. *Bruegel policy brief* Issue 2011/02.

DE GRAUWE, P. (2006).- What have we learnt about monetary integration since the Maastricht Treaty?. *Journal of Common Market Studies*, vol. 44, no. 4.

DE GRAUWE, P. (2011).- Governance of a fragile eurozone. CEPS *Working Documents*, no. 346.

DE GRAUWE, P. (2011).- Only a more active ECB can solve the euro crisis. CEPS *Policy Briefs,* no. 250.

EEAG (2011).- The EEAG Report on the European Economy 2011. CESifo, Munich.

GUAL, J. (2011).- The euro crisis: ultimate causes and lasting solutions, La Caixa, *Working Papers Series 10/11.*

MAYER, T., GROS, D. (2010).- Towards a Euro(pean) Monetary Fund. *CEPS Policy Briefs*, no. 202.

McKINSEY GLOBAL INSTITUTE (2012).- *Debt and deleveraging: uneven progress on the path to growth, updated research*.

PISANI-FERRY, J. (2006).- Only one bed for two dreams: A critical retrospective on the debate over the economic governance of the euro area. *Journal of Common Market Studies*, vol. 44, no. 4.

SIMS, C.A. (1999).- The precarious fiscal foundations of EMU. *DNB Staff Reports*, no. 34.

EuropeG is composed of Antoni Castells (director), Manuel Castells, Josep Oliver, Emilio Ontiveros, Martí Parellada and Gemma García (coordinator).

The *Policy Brief* reflects the group's position, and the contributions of its members, on the basis, in this case, of a first draft prepared by Emilio Ontiveros.

EuropeG
Parc Científic de Barcelona
Baldiri i Reixac, 4
08028 Barcelona
Phone: +34 93-4033723
www.europeg.com

With the support of: