



EURODAD DEBT WEDNESDAYS

Nation states, transnational institutions, and hegemony in the EU: In the light of the pandemic

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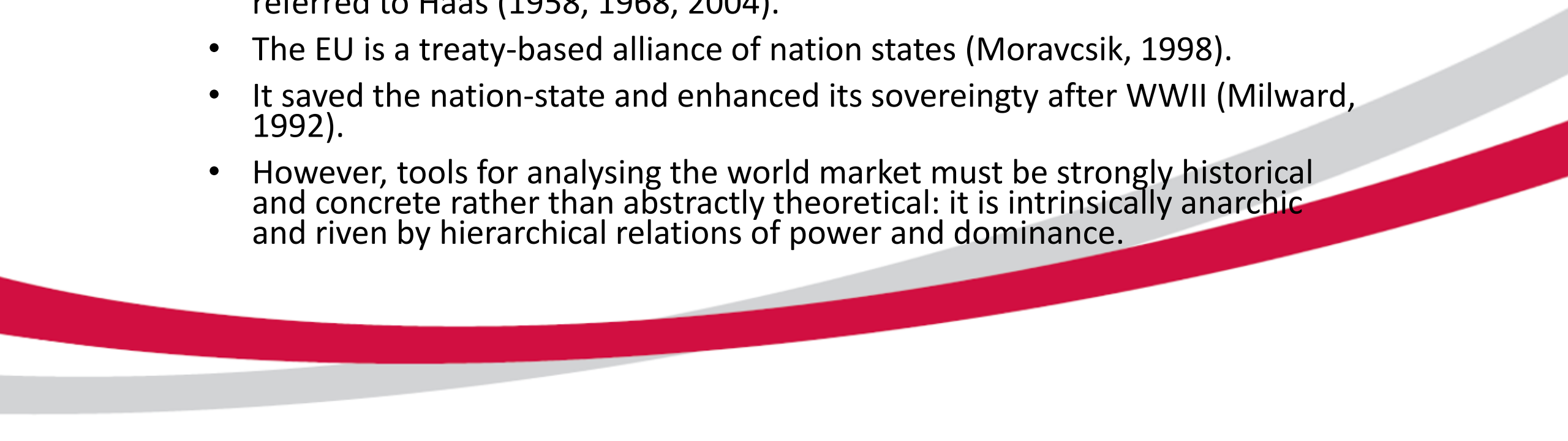
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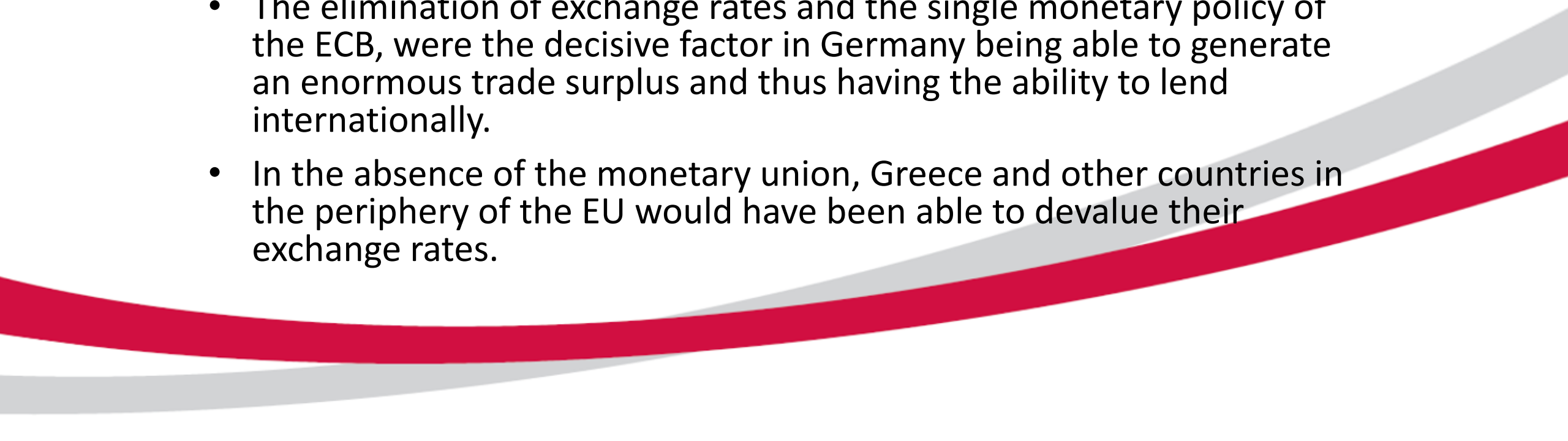
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Beyond the nation state vs among nation states

- Entrenchment of a legal framework and a monetary system that extend beyond the confines of nation states.
 - Crisis of 2007-9 and the pandemic shock of 2020-21 cast light on relations among nation states and transnational bodies in the EU.
 - At odds with the notion of advancing integration: modest 'spill-overs' as referred to Haas (1958, 1968, 2004).
 - The EU is a treaty-based alliance of nation states (Moravcsik, 1998).
 - It saved the nation-state and enhanced its sovereignty after WWII (Milward, 1992).
 - However, tools for analysing the world market must be strongly historical and concrete rather than abstractly theoretical: it is intrinsically anarchic and riven by hierarchical relations of power and dominance.
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Novel hegemony and hierarchy in the EU

- With the euro, an asymmetric bargaining game emerged: adjustment costs were shifted onto the weaker periphery.
 - Institutional reforms that took place in the EMU remained limited to suit the interests of Germany.
 - The elimination of exchange rates and the single monetary policy of the ECB, were the decisive factor in Germany being able to generate an enormous trade surplus and thus having the ability to lend internationally.
 - In the absence of the monetary union, Greece and other countries in the periphery of the EU would have been able to devalue their exchange rates.
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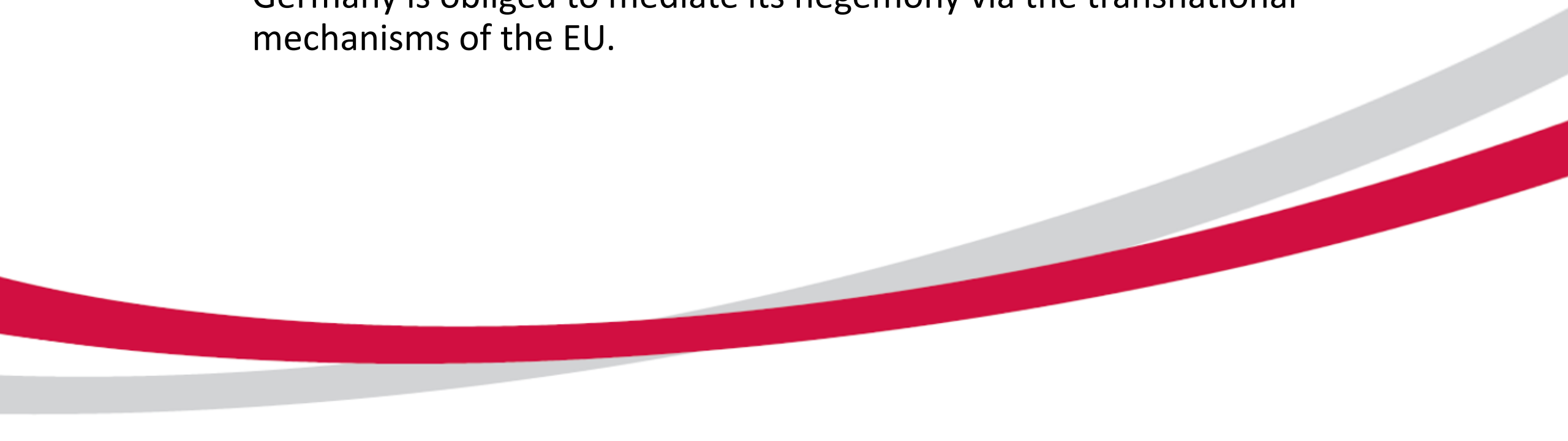
Unequal bargaining among nation states flows directly from two crucial aspects of the euro

1. Monopoly of the ECB over the creation of liquidity in the EMU, allowing it to place entire national economies in a strangle.
2. Threat felt individually by millions of people that they would lose both money savings and identity in case of exit from the EMU.

Example: If it were simply a case of foreign debt, Athens would have probably defaulted very early in the crisis

Thus, the euro propelled Germany to hegemony and confined a raft of member states to a peripheral status of indebtedness and weak growth.

Germany conditional hegemony

- ECB is not the Bundesbank: it does not rely on any nation state to give it legitimacy to create money.
 - The operations of the euro are not directly controlled by Germany.
 - Germany is obliged to mediate its hegemony via the transnational mechanisms of the EU.
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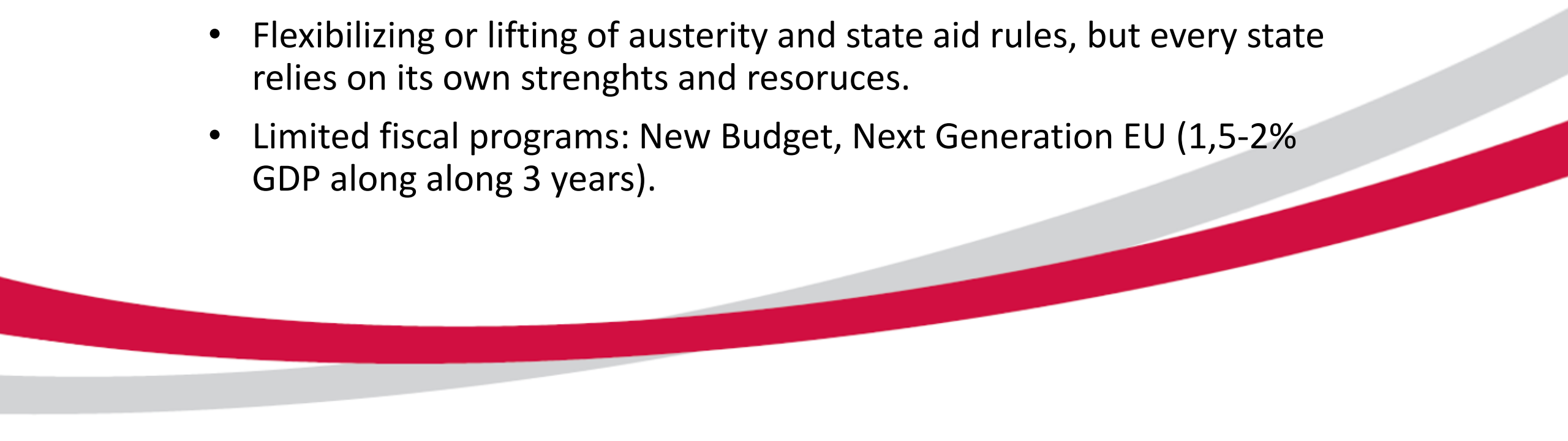
Institutional transformations after the 2007-2009 crisis

- Inscription of austerity into the constitutional framework of the EU: Fiscal Pact, the Six-Pack, and the Two-Pack, deepening the Stability and Growth Pact.
- New institutions to manage the bailouts.
- “Whatever it takes”: extraordinary programme to purchase government bonds.
- Banking Union: capital and liquidity requirements, recovery and resolution regulations on failing banks, separating financial activities.

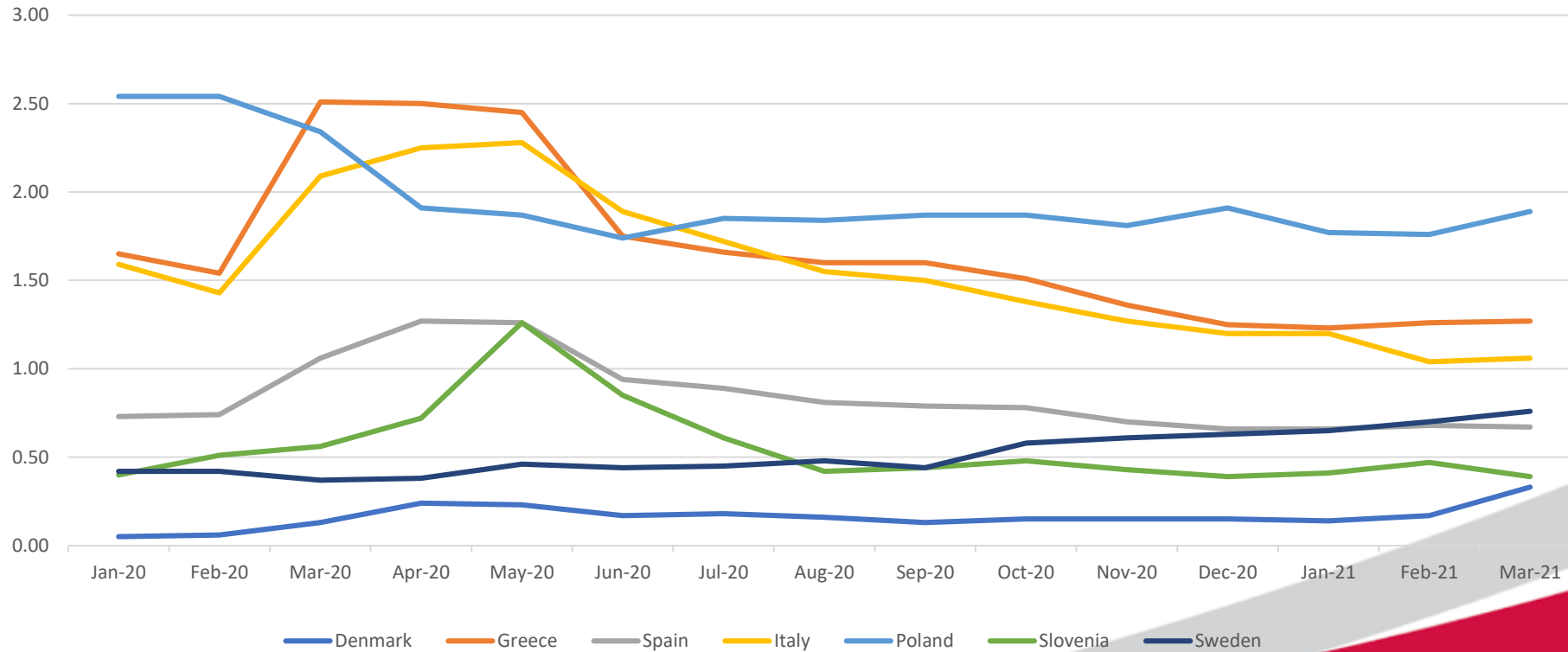
But... the transformations are incomplete

- No Eurobonds
- No direct monetization of state deficits
- No Deposit Guarantee Fund

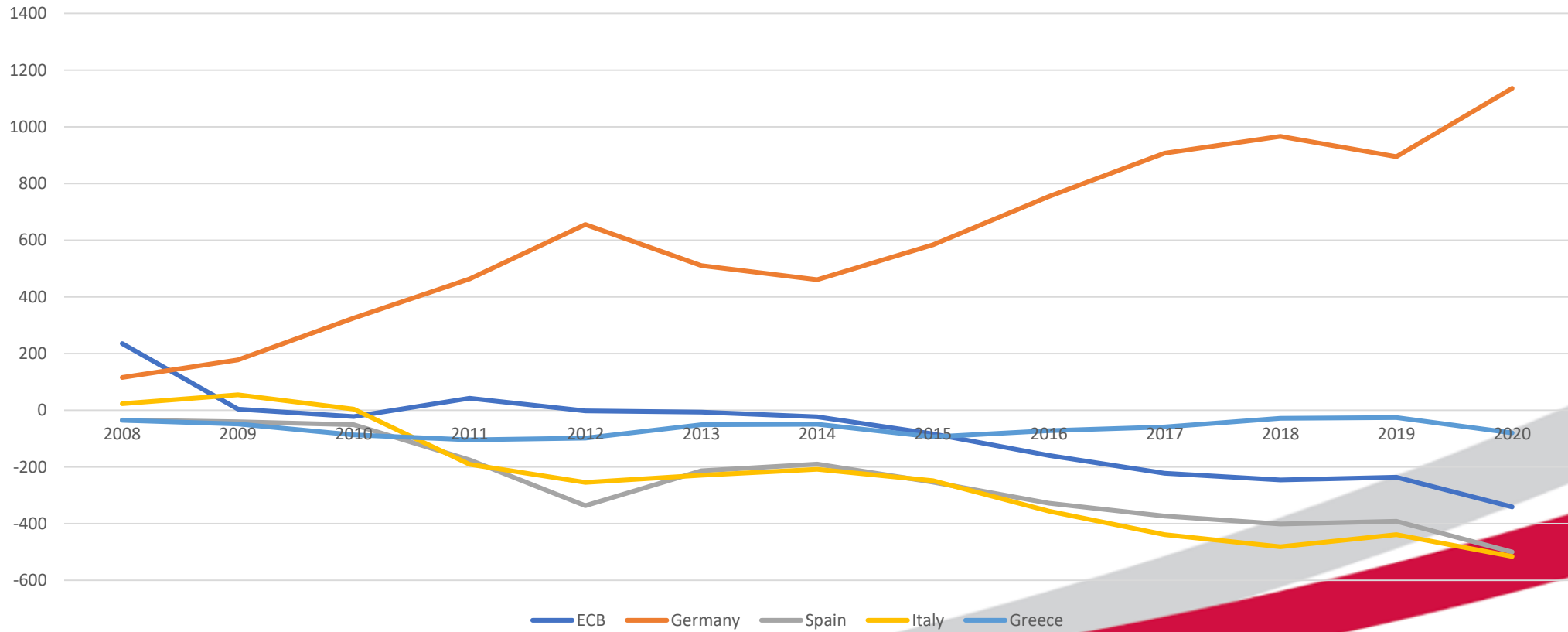
Germany protects its hegemonic power through discretion

- New ECB purchase programme more flexible than previous one, but nation based (Eurosystem unconsolidated balance sheet at more than 11 trillion euros, of which the ECB held less than 2 trillion).
 - Flexibilizing or lifting of austerity and state aid rules, but every state relies on its own strengths and resources.
 - Limited fiscal programs: New Budget, Next Generation EU (1,5-2% GDP along along 3 years).
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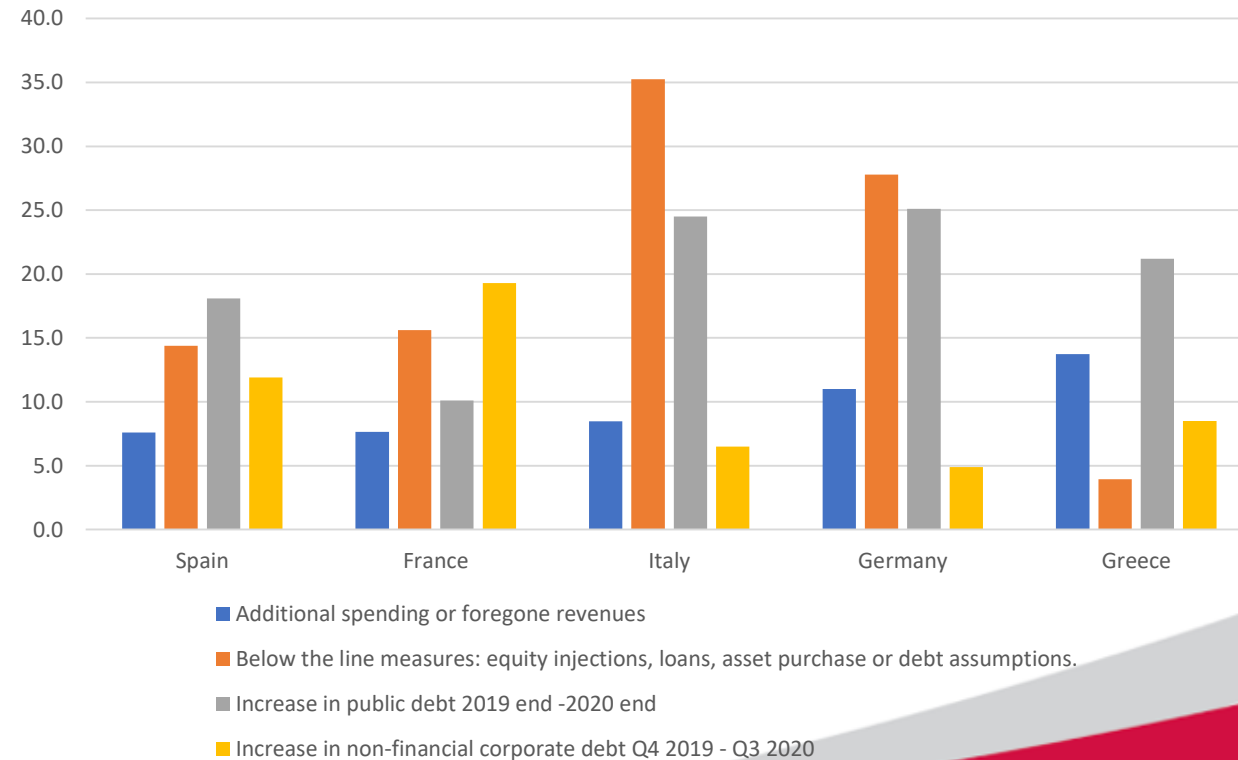
10 Year bond spreads with German bonds



TARGET 2



Response to the Covid-19 Crisis and Increase in Public Debt



Conclusions

- The conflict between core member states and transnational EU institutions is overstated.
- Policies adopted since the beginning of the Covid 19 crisis are compatible with German hegemony.
- Discretion and transgression of the treaties has become the new normal.
- Unclear whether this flexibility can be reversed in the years ahead.

Thanks for you attention

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