Coordinating European Budget Policies: for a proactive and geometrized strengthened cooperation

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Chapter Eleven

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Is not the European Union (EU), as an integrated regional space, an ideal place to implement new public policies? Situated at an intermediate level between the national and the world, can it not bring solutions for the future that will make it possible to solve the economic crisis, especially by recreating public intervention? The need to rethink European policy is all the more pressing because we face today:

– a loss of substance of national policies with globalization;

– a weak coordination of national or regional public policies;

– deficiencies in world governance, especially due to the lack of authorities that are able to implement public policies on a global scale (Bance, 2011a and 2011b);

– a major crisis that is hitting the EU with full force (see the first chapter by Bance above).

The subject of this chapter is therefore to study the determinants, extent, conditionality, and forms of new modalities for implementing coordinated European budget policies. It will be shown that coordination of public policies requires strengthened cooperation. We will take the perspective of proactive management (Martin, 1983) of economic policy, by the institution of new European rules of the game. We will try in this way to lay the foundations of a renovated approach that aligns the EU. The analysis will be made in three steps. First, we will state what the theoretical justifications and formal determinants of the coordination of budget policies are. We will then examine the modalities of implementation and the limits of European policies in the context of the current crisis. Finally, we will analyze the possible means of expression of renovated public intervention for strengthened cooperation, based on a new model of "geometrized" European policy.

1. Theoretical foundations and formal determinants of coordination of budget policies

Economic literature is prolific on the effects of coordination of economic policies. Unanimity does not reign, and the question opposes directly neoliberal theoreticians, especially of rational expectations, who contest its effects and post-Keynesian theorists, who emphasize its benefits. The positive effects of coordination are not advanced only by the post-Keynesians. They also look back to other contributions of economic analysis: economies of scale and game theory.

The neoliberal problematic seeks to discredit public intervention by showing the ineffectiveness and even the harmfulness of interventionist budgetary policies, and therefore of coordination of public intervention. The theoretical frameworks are the neoclassical paradigm and the theory of the real cycle of rational expectations. The argument relies on the theorem of Ricardian equivalence and the Ricardo-Barro effect (Barro, 1974). The ineffectiveness and pernicious effects of public intervention allegedly result from the ability of agents to destroy the effects of budgetary policy by making anticipations that are called rational, which means that they “do not present systematic errors (or skewing) and use all available information” (Samuelson and Nordhaus, 1998). Because of their (substantive) rationality and their perfect knowledge of economic mechanisms (more accurately, of the economic model of reference), economic agents could thus anticipate the effects of budgetary policy and destroy them, whether it is an expansive policy or one of austerity. They make it totally inoperative over time, or in other words, “neutral” on mid- and long-term economic growth. Budgetary policy could produce, on the contrary, pernicious effects by the increase in the public deficit and debt. Thus, in the case of an expansionist budgetary policy, economic agents could be fooled only temporarily by an initial increase in activity and the income caused by budgetary policy. They would anticipate the inflationary effects of a stimulus and the resulting tax increases (therefore the absence over time of any growth in purchasing power), which would dissuade them from increasing their consumption. No real effect on activity would result from this. Furthermore, supplanting effects could come from it: the rise in interest rates caused by the growth of public debt would penalize private activity. Moreover, a policy of budgetary rigour would not cause recessionary effects. Agents would anticipate the benefits of a return to a balanced budget, which would lead them to compensate for recessionary effects by an increase in private demand. Recommendations then could not be contradicted: it is right to renounce any active budgetary policy, even if it were coordinated, and to follow policies for a balanced budget. This would avoid supplanting effects, would strengthen the credibility of economic policy, and would create the conditions for sustainable growth. Simulations based on this theoretical approach produce results that match expectations[1], over-determined as they are by pro-format hypotheses (Bourdin and Collin, 2007). One enters here a process of self-legitimization, which actually tends toward a theoretical enterprise of a doctrinal character. For even while admitting the conclusion of a return to the original situation after a budgetary

[1] Such is the case of the Quest, NiGEM, Multimod, and Marmotte models, which are based on hypotheses of optimization over time with perfect anticipation.

stimulus, one cannot dismiss the usefulness of resorting to budgetary policy: the time period of the adjustment is in no way determined, and the transitory stage may be long, which can justify resorting to an expansionist budgetary policy (Solow, 2002). But the impact of the analysis is debatable above all due to the heroic character of the hypothesis of rational anticipation. The absence of constraints of liquidity on agents is a necessary condition for budgetary policy to be ineffective over time. In the case of restrictive budgetary policies, private agents can thus compensate for the recessionary effects of the contraction of public spending. In the case of an expansionist policy, the absence of constraints of liquidity allows agents to save in order to fortify themselves against anticipated tax increases, to act on the sole basis of the anticipation of their long-term personal interests to thwart the effects of the policy in the situation. Claiming that economic agents are not subject to constraints of liquidity is a particularly unrealistic theoretically position. But beyond the heroic character of the hypotheses, the wide gap between theoretical prescriptions and policies adopted to deal with the crisis should be emphasized. In 2009, expansionist policies were in fact unanimously supported in the countries of the OECD. States tried to stimulate demand by a budgetary stimulus. It was also a matter of holding back the deep distrust that economic agents had of the market, which raised fears of a generalized collapse of the economic system (see the chapter by Bance above). These realities are not taken into account by the theory of rational expectations. For it, a crisis of confidence cannot be blamed on the markets but results from destabilizing effects of public policies. These considerations therefore put this current in the line of fire of Popper-inspired criticism, which invites analysts to challenge, in the process of selecting theories, those that do not correspond to the reality of the environment and are refuted by experience and confrontation with the milieu.[2]

Keynesian precepts are not exposed to such criticism today. Their relevance is largely corroborated by the strong return of the State, in the context of generalized and large-scale economic crisis that we have seen since 2008. An international consensus has formed that legitimizes action by States "to act vigorously on the financial and macroeconomic fronts, to establish favorable conditions for a return to sustained growth... budgetary policy must play a crucial short-term support role for the world economy" (IMF, 2009, p. xiii-xiv). In accordance with the prescriptions of Keynesian analysis, the State imposes itself as the only institution able to act to remedy the crisis. In the mobilization of nation-States, it not simply a matter of activating automatic stabilizers but above all of following discretionary fiscal policies to support activity. Public intervention, massive, thus looks back to the theoretical framework of situational policies of Keynesian inspiration, in which one tries to profit from multipliers of public spending. The budgetary policies adopted in this line of thinking by the countries of the OECD thus became strongly countercyclical beginning in 2009 (see Bance above; Huart, 2011; OECD, 2011). The break, at least in this situation, is complete with the budgetary policies carried out since the end of the 1980's under the influence of neo-Ricardian thought. The multiplying effect of public spending motivates the State intervention by the OECD countries, and this despite its attenuation in an open economy, a phenomenon that is well

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[2] For Popper, "one must consider a theory disproven, if we find a reproducible effect that refutes it" (Popper, 1973, Ch. 4: "Falsifiability,"p. 85).

known to Keynesian theory.

International authorities such as the OECD or the IMF go further, calling in early 2009 for close coordination of economic policies to optimize the effects of the stimulus and to seek to overcome certain limits of national public intervention, even when it is executed jointly. The risk of protectionism gaining strength, which tends to result from this growing need for public intervention, in fact pushes for the coordination of economic policies to amplify the multiplying effects and avoid the spreading of unwanted effects. It is right to state, however, the multiple meanings that the term coordination of economic policies can have. Coordination can be seen as a set of binding arrangements and stability policies that seek to forbid certain States, which are irresponsible, to increase greatly their public deficits or debts: one then seeks to avoid destabilizing and penalizing effects on other countries. Strict control of public finances, in a monetary union or through international aid provided to States in trouble, can be joined to this logic. Its foundations look back more to the Ricardo-Barro model, or at least to analyses of the effects of systemic contagion, which can be real due to the deficiencies of States, than to the Keynesian conception. It is also possible, on the other hand, to see coordination of public policies as common arrangements that seek to mobilize in the most effective way the instruments of the budgetary or monetary policies of various countries in order to energize them by creating synergy. On this subject, one can talk about a policy of coordinated dynamics. Such a step, for its part, is situated fundamentally in a Keynesian point of view centered on seeking the greatest possible effectiveness of the instruments of public intervention. These policies of coordinated dynamics find a supplementary justification in economies of scale. Gains in efficiency are associated with the size effect and make it possible to benefit from a lever effect for public intervention. They play an especially important role in the framework of a closely coordinated policy of several countries that make it possible to reach a critical size. Large size puts them in a position of strength toward the markets by strengthening the credibility of States. As an example, the downgrading of States' ratings by rating agencies concerns, everything else being equal, small countries first, before extending to larger ones. Close coordination of public policies and establishment of concerted or common arrangements (like financing of public debt by the European Central Bank, European mutualization of national debts, common budgets, etc.) make it possible, by the workings of displayed solidarities, to strengthen the credibility of public action and of States, to reduce risks of speculative attacks on the latter.

Finally, justifications for close coordination of public policies can be drawn from game theory. This theory, and its famous prisoner's dilemma, establishes that the non-cooperative strategies adopted by rational actors, who seek to satisfy only their own selfish interests, lead to a non-optimal balance. Indeed, each actor seeks to protect himself from the opportunist behavior of the others that would be harmful to him. Each therefore tends to adopt a strategy that will allow him to avoid finding himself, because of the others, in situation that is particularly unfavorable for him. This leads to the adoption of behavior that does not put the actor in the best possible situation, which is therefore not a Paretian equilibrium. A strategic agreement among the actors, and therefore in this case among States, makes it possible, on the other hand, to reach a higher general level of satisfaction.

This approach puts each of the States in an analogous situation and tends to exclude imbalances of power or influence, which of course is a serious limit to it (Bourdin and Collin, 2007). These simplifications obviously do not make it possible to account for the asymmetrical relations of power or influence that exist between nation-States within the international community. Nevertheless, it remains true that the selfishness of national interests, antagonisms between States, and their very pronounced opportunism (Bance, 2011) justify having recourse to this approach based on methodological individualism. Game theory contributes interesting tools for analysis to clarify how cooperative policies on the international scale can be structured on the basis of national positionings that are competitive or even antagonistic.[3] For this, one will place oneself in a context of "coopetition"[4], in other words, of competitive alliances between nation States on the international stage. It is thus possible to analyze formally the differences in the positioning of nation States and the adoption or failure to adopt strategies of cooperation in matters of budgetary policy. These strategies look back to a double criterion for specification: on one hand, the degree of the nation's aversion to a possible deficiency of other States, and on the other hand the degree of interest shown for adopting cooperative strategies that make possible the implementation of active and structural policies for the situation. The alternatives in terms of the positioning of a State are diagramed on the following chart:

Degree of aversion to the risk of failure of the other States Degree of support for adoption of common active policies	**Weak**	**Strong**
Weak	Low desire for economic coordination	Promotion of a stability policy
Strong	Promotion of a policy of coordinated dynamics	Strategic indecision

The national positionings that are formalized in this way are part of the logic of general interest implemented by nation-States. The option of a stability policy characterizes countries that have a rather self-centered logic, that are favorably positioned on the

[3] Game theory, whose inventors in the 1940's were Von Neumann and Morgenstern, owes part of its success to the need to analyze conflicts of national interests in the context of the Cold War.

[4] This concept is owed to Nalebuff and Brandenburger, who mean to characterize in this way a situation marked jointly by cooperation and competition.

economic level and fear greatly the threat of the spreading of harmful effects caused by misguided budgetary policies of other countries. The option of promoting policies of coordinated dynamics on the international stage tends to be embodied by countries with an interventionist nature that seek to build active solidarities to prevent risks or generate opportunities to come by mobilizing common tools of economic policy.

To clarify how such national positionings are structured in an interstate position, it is proper to analyze the characteristics of the decision making process. From a formal point of view, if one considers deep differences of view between States, the balance is likely to lead to a blockage of the decision making process and an absence of any coordinated policy. To show this, we will consider a configuration with two countries, in which the first country (or group of countries), A, positions itself in favor of a stability policy, while the other, B, opts for a policy of coordinated dynamics. The two kinds of policies are incompatible, since the first prevents the use of the budgetary policy instruments that are necessary for implementing the second. The first scenario, implementation of a stability policy, is for example considered positive for A (which associates it with a collective well-being of 10), negative for B (which attributes to it a loss of well-being of 5) due to the impossibility of implementing a policy of coordinated dynamics. In the second scenario, adoption of a policy of coordinated dynamics, A records a loss of 4, B a gain of 11. Finally, the third scenario is characterized by the lack of a coordinated policy, which leaves the situation unchanged for each country. These different scenarios are diagramed in the following chart:

	Stability policy	**Absence of a stability policy**
Policy of coordinated dynamics	-	(10; -5)
Absence of policy of coordinated dynamics	(-4; 11)	(0; 0)

The game thus shows that, in a configuration where the hypothesis used is that each of the actors has a power to block decisions that create an unfavorable situation for him, the equilibrium is sub-optimal and marked by a lack of coordination. Utility remains unchanged, while in the other scenarios, overall net gains are recorded. But can things be different in a context of coopetition? Another equilibrium can be reached by changing the hypothesis that each of the actors has the power to block the others. A State (or group of States) can thus hold hegemony allowing it to impose its dominant strategy. This leads to a questioning of democratic free choice for nation States whose strategies are thus dominated. For these countries, the national general interest is challenged without backing from a democratic decision making process, a criticism that is often made of the construction of Europe. One can also enter the framework of dynamic games: the political negotiations conducted between countries alter national points of view, making them converge on a common strategy. This process has proven time-consuming, however, if one intends to respect the democratic game properly. Finally, a coordinated policy can be implemented under the aegis of a supranational authority, which raises here again the question of respect for democratic principles.

Beyond theoretical arguments about the potential benefits of cooperative strategies, we now need to clarify how those strategies can be made concrete in the real space of the practices of public policy. Is not the EU, as a regional integrated space, the ideal place for implementing this kind of strategy?

2. The European political-institutional process for coordinating budget policies and its asymmetrical impact

The European Union has the goal of promoting cooperation on matters of public policy. This political-institutional positioning has been present from the beginning of the process of European integration.[5] Coordination is thought of, however, as simple cooperation between States under the aegis of the Council, and in terms that remain relatively vague. It is a question of defining the broad orientations of economic policies, especially of creating a project for that purpose and relying on it. Coordination of budgetary policies remained virtual for several decades. States wanted to preserve their maneuvering room to satisfy their interests as well as possible, often playing with the status quo to maintain their prerogatives.

However, with the crisis of the 1970's and the limits encountered by national public policies to remedy it, coordination looked all the more necessary because the budget of the EU, for historical and institutional reasons, was very small compared to that of the member countries: it was only 1% of the GDP of the EU, while that of national public

[5] In the 1951 ECSC treaty, then in the treaty instituting the EC (Article 145, new Article 202), the Council ensures the coordination of general economic policies of member States.

spending stood on average at close to 45%.[6] The situation was very different from that of the United States, where the federal level makes up more than 60% of total public spending. Coordination was also necessary due to great differences in approach from one country to another in conducting budgetary policies, with some countries favoring policies based on supply, others policies based on demand.

The European dynamic initiated by the creation of the Economic and Monetary Union (EMU), however, was a source of profound changes. With the ratification of the Treaty of Maastricht, a new article was added to the EU Treaty: "The action of member States and the Union includes, within the arrangements anticipated by the Treaties, the establishment of an economic policy based on close coordination of the economic policies of the member States."[7] Coordination appeared necessary to establish the single currency. The EU also found in it the way to advance building of the community by taking away from member States prerogatives that were seen as national factors for blocking common policies. The economic argument was to avoid moral hazard[8] and the risks of questioning the common edifice by the deviant behavior of some member States. Criteria, called convergence criteria, thus condition entry into the euro zone. Among these criteria, two out of five deal with public finances: the maximum level of 3% annual deficit and that of 60% of public indebtedness.[9] Their level is set on the basis not of an economic argument but rather of a political choice, obtained under strong pressure from Germany, which was strongly attached to monetary stability for historical reasons. The economic impact was no less important because of that: the maneuvering room of States was deeply affected, and the conduct of active budgetary policies of a discretionary nature greatly hindered. The free market orientation of the European integration was found again in the statutes of the European Central Bank (ECB): the independence of that institution, once again desired by Germany, was established in them. The monetarist conceptions of the Chicago school were thus imposed with special force in Europe rather than in the United States, where the federal government has more ability to influence monetary policy (the goals of the Fed also being those of growth) and has the budgetary instrument at its disposal. A disconnect between monetary policy and budgetary policies

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[6] Public expenditures of the 27 members States went from 45.9% to 50.4% of GDP from 2007 to 2010 (Eurostat, Euro-indicators, press release, 60/2011, April 26, 2011). Since the end of 2010, a disagreement has arisen between the European Commission, which wants to raise the budget of the EU to 1.24% of the EU's GDP, and the six member States of large countries that have expressed a preference for a ceiling at 1%.

[7] Article 119 of the Treaty of the EU (ex-Article 4 TEC) in its consolidated version, *JO*, no. C 115 of May 9, 2008. Article 121 (ex-Article 99 TEC) also stipulates that "the member States consider their economic policies as a question of common interest and coordinate them within the Council."

[8] Moral hazard is a situation in which an agent maximizes his individual interest without taking into account the unfavorable consequences of his decision for collective utility. In the present case, it is a matter of preventing a member country from endangering the EMU by taking thoughtless risks, especially by deteriorating its public finances.

[9] The three others concern the absence of devaluation before integration into the monetary union and differentials

was also institutionalized for the countries of the euro zone, which was again a break with Keynesian analysis, which recommends coordinating them in order to optimize the effectiveness of public policies. The coordination of economic policies thus presents the peculiarity in Europe of reducing the maneuvering room of public authorities in terms of both budgetary policy and monetary policy (whose content has become, under the aegis of the ECB, essentially monetarist and technicist to fight against inflation and ensure the credibility of the single currency). Community authorities also find in it a chance to limit the prerogatives of the States and to affirm their own power. This strange result of a loss of capability in matters of economic policy approved by the States[10] has several causes: the commercial origin of the EU, the dominant influence of Germanic ordoliberal doctrine when the ECB was created; the great distrust that continues to exist between member States, and asymmetries of national power within European institutions. From this, results the primacy of European stability policies over policies of coordinated dynamics.

In the first decade of the twenty-first century, coordination of the budgetary policies of the euro zone hardened by the application of the Stability and Growth Pact (SGP).[11] It was a matter of avoiding the free rider behavior of countries that would let their public deficits grow without having to suffer the consequences but that would penalize the entire euro zone, including the most responsible countries. Other arguments were based on the idea that a balanced budget would make it possible over time to restore the maneuvering room of States in case of asymmetrical shock or recession. This ensured the independence of the ECB, which was forbidden to loan to a State. The criteria of public finances are supposed to be applied strictly since then, and States are supposed to try gradually to reach a balanced budget. Systems of multilateral supervision, early warning, and sanctions are thus anticipated to enforce the new budgetary orthodoxy, in the framework of the excessive deficit procedure.[12] The serious difficulties encountered in applying the SGP would force the EU, however, to soften its position. Large European countries, such as Germany and France, did not intend to respect the criteria and violated them. They therefore had the Council on the Economy and Finances adopt measures that diminished the impact of the criteria. Although the Court of Justice, to which the Commission appealed, condemned the Council, the sanctions were abandoned and the criteria softened in 2005, notably by allowing member States to avoid the procedure for excessive deficits in times of recession.[13] The fall in economic activity and the implementation of large-scale countercyclical policies, however, would result in most

between countries in inflation rates and real long-term interest rates.

[10] According to Sen (2008), capability is an individual's effective possibility of choosing various combinations of functioning, which therefore reflects the liberty he enjoys to perform one type of action or another.

[11] The SGP was instituted in Amsterdam on June 17, 1997, in the form of a resolution of the European Council.

[12] Regulation (EC) no. 1467/97 of the Council of July 7, 1997.

[13] Regulation (EC) no. 1056/2005 of the Council of June 27, 2005.

countries of the euro zone no longer respecting the criteria of the SGP after 2008. However, to coordinate the stimulus policies of States, “the European Commission proposes that member States and the EU agree on an immediate budgetary impulsion.”[14]

These arrangements are, however, in no way a break: the primacy of the stability policy remains in effect under the impulsion of a European Commission that is both the guardian of the treaties and the eulogist of free market economics (as it notably was in the past by its initiatives on matters of opening services of general economic interest to competition or of control of State aid). The Commission began again in February 2009 procedures for excessive deficits against Spain, France, Greece, Ireland, Latvia, and Malta. Arguing the necessity of sound management and of long-term restoration of States’ maneuvering room on matters of economic policy, the approach is rigorist, legal-institutional, and fundamentally anchored on the orthodoxy of the SGP. In March 2011, the heads of State and of government of the EU undertook in this same spirit measures intended to reform the governance of the Union. They meant to provide a remedy to speculative attacks on certain States, and, more generally, to respond to the distrust and risks of contagion that were seizing the markets due to public over-indebtedness. Defensive measures for this were taken in the first half of 2011. A Pact for the Euro was adopted in March, whose goal is “strengthened coordination of economic policies for competitiveness and convergence.” But beyond declared principles, it is not a matter of coordinating public policies in order to energize growth; it is rather an attempt, in accordance with German demands, to link possible financial support granted by the Union to the adoption of a national policy of austerity.[15] Then rescue plans were adopted for Greece, Ireland, and Portugal. The aid given was accompanied by very stringent measures and severe cuts in public spending. A European Financial Stability Facilty (EFSF)[16] was also created, but the lack of internal solidarity in the EU was clear and did not dissipate the concerns of the markets. With the internal political dissensions, the doubts about the governance of the American economy, then the lowering of the rating of the public debt of the United States by the rating agency Standard & Poor’s, this would contribute to the crash of August 2011.

The recommendations formulated by the “Franco-German couple” to stop this new crash seem to be an off the cuff reaction marked by the seal of continuity, and moreover insufficiently reassuring for the financial markets, which fear especially the recessionary effects. In fact, beginning in September, the need for a general tightening of budgetary rigor was declared: it was a matter of constitutionalizing by a “golden rule” a prohibition on

[14] COM (2008) 800 final.

[15] See http://www.senat.fr/fileadmin/Fichiers/Images/commission/affaires_europeennes/zoneeuro_mars 2011.pdf.

[16] It is provided with 440 billion euros and must be replaced in 2013 by the European Stability Mechanism (ESM), which will be provided with 500 billion euros and will be able to buy the debt of States on the primary market.

public deficits in all the countries of the euro zone. In December 2011, the driving couple made new proposals. Remaining very imbued with the German conception, the measures consist of recommending, in the framework of a "new common legal framework," a new European governance based on strict control by the Union of national public finances around the golden rule, with quasi-automatic sanctions in case of failure to obey the rule. They also seek to make national economies converge on matters of the functioning of the labor market, imposition of taxes on companies, and regulation of finance, especially with the establishment for the end of 2012 of a tax on financial transactions. The permanent European Stability Mechanism (ESM) must also come into play and replace the European Financial Stability Facility and help countries in trouble. The inability to have these measures adopted by the 27 (the United Kingdom having at once forcefully opposed the proposals, which then could not be adopted outside the euro zone) shows once again the impossibility of re-founding the EU on an expanded base. The difficulties of the Franco-German couple to reach bilaterally common proposals, also shows the power of different national conceptions: Germany thus challenged the French proposal for automatic solidarity of the EU with countries in trouble, and showed great reticence toward the position for immediate implementation by the two countries of a tax on financial transactions. As for the proposals that were accepted, although they included useful measures for harmonization in the areas of work, taxation and finance, they constituted in no way a solution that was up to the task of resolving the problem of debt, especially of the countries with the greatest troubles, and this despite a desire to help Greece. Coverage of the indebtedness of States by the central bank through very low-interest loans would have been, arrangements that are, however, retained and fully accepted for refinancing banks and that could have, according to the texts in effect, financed public credit organisms if they were not able to do so directly to States.[17] Finally and above all, the central arrangement is that of general budgetary austerity.

The recommended policy then presents, from a theoretical point of view, monetarist and Ricardian foundations, and neglects the negative fallout of the contraction of public spending in a period of very weak economic growth. The rescue strategy relies only on budgetary rigor for everyone, without using the complementarities or coordination of public policies. By seeking to protect oneself from the irresponsible free rider behavior of certain States, one places oneself in an austerity approach for all the countries of the euro zone for several years. This does not take into account the specificities of each country or the economic situation, either present or future. It does not evaluate the effects of the contraction of public spending on growth, and therefore on later deficits.[18] The most

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[17] See on this subject M. Rocard and P. Larrouturou, "Why must States pay 600 times more than banks?" *Le Monde*, January 3, 2012, http://www.lemonde.fr/idees/article/2012/01/02/pourquoi-faut-il-que-les-etats-payent-600-fois-plus-que-les-banques_1624815_3232.html#ens_id=1268560.

[18] Part of the debt of some States results from insufficiently rigorous management before the crisis, but this is in no way

vulnerable countries, forced to institute draconian austerity, are the most threatened by the vicious circle of depression – increase in the public deficit and debt. This is the case for Greece, where the aggravation of the recession in 2010-2011 increased the deficit to call for austerity plans and repeated aid from the EU. The negative multiplying effects of the austerity policy hinder the return to growth and make a number of countries in the Union unable to pay their debts. And a chain reaction by contagion is also liable to occur due to the general deterioration of growth and of the ratings of States. A common will and common actions to reduce deficits therefore do not eliminate the possibility of a general conflagration, all the more because the lack of internal solidarity of member countries remains clear. If control and stabilization of public finances are indispensable in the middle and long term to avoid effects of contagion, excesses of austerity carry opposite effects of those one is trying to avoid, as happened when the American government decided in 2008 to punish Lehman Brothers bank, which was considered to be irresponsible.

The deepening of the crisis, this time by an inverted system spreading from States to the markets, is therefore liable to occur despite the political will to remedy it. It results from the deficiencies of European governance, the lack of cohesion and internal solidarity among member States, the free rider behavior of some of them, and inertia to establish innovative public policies. In these conditions, improving the effectiveness of European policies cannot result solely from EU control over States and austerity policies. For all that, establishment of a consistent European budget does not constitute a more convincing solution: as relevant as it is, it is likely to run up against sovereignty issues, even to provoke internal conflicts, and in any case to require a lot of time to become concrete. One is then placed in the point of view of a new European impulsion by budgetary policies of coordinated dynamics.

3. What new foundations for a European policy of coordinated dynamics?

On the basis of the preceding analysis and in a pragmatic approach, we will try to specify new forms of coordination of European budgetary policies. For the changes to be accepted, the reforms should re-legitimize the EU's way of functioning by improving the effectiveness of European regulation. From this point of view, we will emphasize four criteria for carrying out reforms. The first criterion is to give greater democratic legitimacy to public policies: this is a fundamental condition for the reforms to be accepted. The second, which is a corollary of the first, is to ensure better harmonization of the policies

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the result of a general laxity: from 1997 to 2007, the public balance improved for the euro zone by 1.5% of GDP, and notably, by 5.1% for Spain, 1.9% for Greece, and 1.2% for Portugal (OCDE, 2010). Tax exemptions were the cause of the smallest improvements in public balances, as in France, where it declined by 0.2%.

followed with the general interest and its national or infra-national frame of democratic expression. For this, it would be right to support a dynamic that protects from centrifugal forces, strengthens mutual tolerance and recognition, and limits national hegemony or the doctrinaire content of policies already begun. The third criterion is to energize the policies of the EU by a new institutional direction that facilitates incremental innovations and mutations afterwards: an initial thrust based on a radical change would make it possible to open renewed possibilities. Finally, the fourth criterion is to obtain additional maneuvering room in matters of economic policy, with more flexibility to intervene when facing difficult economic times, and to conduct structural policies. In other words, it is a matter of increasing the capability of public authorities by the implementation of proactive policies of coordinated dynamics.

These criteria are analyzed as a set of constraints on a political program, about which it is right to state first of all under what conditions it would be possible, then how its implementation could be facilitated. To make such a political program possible, it would be right to try to relax certain institutional constraints that currently weigh on the EU and are causes of inertia or factors of blockage. On this point, the fundamental question is that of the sphere of specification and implementation of public policies. In an EU of 27 countries with heterogeneous practices in matters of budgetary policy, convergence of practices is nearly impossible. Adoption of reforms desired and shared by all is a utopia. This is enough to provoke a passive attitude and therefore inertia, or, on the contrary, an interventionist attitude by the EU or certain countries, which would lead to conflicts and centripetal forces. A pragmatic approach therefore consists of relying on countries that share common conceptions in order to coordinate public policies better and produce positive spillover effects. The idea is not new, since it looks back to that of strengthened cooperation in the EU. The content given to the idea of strengthened cooperation differs, however, depending on positioning: sovereigntist or federalist. Sovereigntists are betting on an “à la carte Europe,” while federalists support a “multi-speed Europe”. This second conception depends on the criteria of capacity. It is this kind of approach that authorized the establishment of the single currency for part of the member States of the EU. The point of view taken here will borrow from both approaches. It is possible, as the federalists envisage, to rely on a common desire to implement policies, in this case coordinated policies. One can find in this the way to advance a dynamic that is indispensable to initiate shared reforms that make it possible to seek effectiveness in public policies, especially those related to budget. But we will borrow from the sovereignist approach the principle of rejecting an imposed framework with an underlying principle of irreversibility. It is therefore a matter of providing public authorities with flexibility in adjusting their policies to reconfigure their action, take into account changes in the general interest and spheres of specification that lie at an infra-European level, and of being able to use solidarities in national or even regional spheres. Two principal questions arise on this subject.

The first consists of asking about the conditions of implementation of proactive coordinated economic policies, and therefore about possibilities for implementing change in the current European framework. The crucial element in this respect is the sphere of collective concern of renovated policies. Reforms, having relevance and being able to succeed only on the basis of their expected effectiveness, must draw the support of a sufficient number of countries that also have significant overall weight in the EU. The change is in fact liable to stir up opposition from countries that are fundamentally attached to the rules already established in the EU. Unless the EU is dismembered, only obtaining a critical mass of reformist countries can allow change by creating a favorable balance of power. Furthermore, a critical mass makes it possible to benefit from effects of pulling others along to coordinated policy on the economic growth of partner States and the behavior of other EU countries. The presence among the reformers of net contributors to the financing of the EU is, from this same point of view, a source of this ability to attract others. It is also essential to have real political credibility from the outset in the ability to execute reforms and to initiate a new dynamic for the community. The reforming States must therefore, from the point of view of the effectiveness of proactive coordinated policies, take positions that are flexible enough to implement and adjust structural and situation-based policies: the critical mass should then also be a performing mass, in other words, should make possible the adoption of institutionalized compromises that are practicable in the medium and long term.

The second important question is that of interaction between policies of coordinated dynamics and other EU policies. Re-founding public policies presupposes strengthening greatly the capability of States to carry out policies for situational regulation and sustainable growth. This calls for a revision of the European approach along three lines: going back over certain orthodox orientations of current policies, obtaining new tools for situational regulation, and developing a common policy for sustainable growth.

Questioning orthodoxy begins by abandoning the SGP and other golden rules. If it is necessary to seek protection from the drift of public finances and the harmful effects of over-indebtedness in order to maintain political sovereignty and not compromise the future by the debt burden, it is still essential not to block the maneuvering room of budgetary policy by inviolable rules. Rather than seeking as a top priority to reassure the markets, it would be a matter of establishing new systems of public action that reaffirm, from the point of view of effectiveness, the primacy of public authorities on matters of economic regulation. Certain practices in effect in the EU should imperatively be revised to allow proactive coordinated action. This would be the case with the SGP due to its universalizing character and its lack of foundation on a coordinated strategy for growth.

Harmonized tax reforms[19], modulated according to the intrinsic characteristics of the economy of each member country and betting on optimal use of budgetary and fiscal multipliers, should be substituted for it in the framework of a strategy of combined growth and programmed clearing of debt. In the same way, coordination between budgetary policies and monetary policy should be sought. This would be done by questioning the monetarist dogma of fighting inflation. It would then be a matter of betting on the greater effectiveness of the combined action of budgetary and monetary policies. In the context of instability, slowed growth, the high cost of debt service, and limitation of the degree of freedom of budgetary policies, moderate inflation could also contribute to the gradual process of States getting out of debt.

Second, it would be right to obtain instruments for common action to remedy the speculative attacks of the markets against States and restore the maneuvering room of budgetary policy. In this respect, several arrangements could be adopted: regulating finance by re-introducing a separation between business banks and investment banks; financing new sovereign debt by renouncing its securitization and relying on the domestic savings of member countries; refinancing this debt by very low interest rates from the central bank; restructuring debt; establishing a common mutualization fund with large financial capacity; finding new sources of tax revenue that penalize speculation, especially a tax on financial transactions; reestablishing mandatory taxes to support a policy that reduces as much as possible the negative effects of tax multipliers, especially as the analyses of the OECD suggest (see the chapter by Bance above), by increasing taxes on inheritance and high incomes.

Third, it would be right to re-found common policies around a paradigm of sustainable growth. For this, one could rely on new indicators of sustainable growth (see the chapter by Florence Jany-Catrice below) and re-orient public policies on goals of sustainable growth: take a point of view of economy of needs, of developing investments for the future, of public services and collective goods (see the chapter by Jacques Fournier below), bet on the territorial anchoring of public policies, sustainability of energy and the environment, solidarities, and daily quality of life (Gadrey, 2011).

In the past, the EU showed its ability to change its policies and institutions. These structural changes were usually realized, however, in a context of abrupt shifts and sharp conflicts between member States. The Union is once again today in a phase of institutional transformations due to the depression that Europe and the world are experiencing. A creative deconstruction of European policies has become imperative for

[19] One might remember on this subject the proposal of M. Pucci and B. Tinel (2011) to increase taxes on wealthy households, improve the distribution of income for poor and average households, and limit the development of savings.

the survival of the euro and the very process of European integration. Adoption of proactive public policies of coordinated dynamics can then appear as a condition of survival for the EU by re-founding the future. Aligning the EU to carry out policies of coordinated dynamics would make it possible to go beyond interstate blockages in an extended Europe that is cruelly lacking in internal solidarity. It would still be necessary, however, for the free market thought that has mobilized the Union since its origins and the fears of dismemberment of the EU by proactive strengthened cooperation not to push toward a narrow conservatism with destructive consequences.

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