Comments on “Lessons From the United States For the Functioning of the EMU”

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Quick, selective summary

- A long and winding road
  - \( \approx 75 \) years for a single currency
  - \( \approx 125 \) years for a central bank
  - \( \approx 150 \) years for a true fiscal union
  - \( \approx 200+ \) years (and counting) for full banking union

- Some myths (thankfully) dispelled
  - Stabilizers are only semi-automatic
  - Balanced budget rules are often flexible and rarely binding
Minor quibbles

- Benefit taxation easier in theory than in practice
  - Of course users should pay fees
  - But concentrated users have powerful incentives to fight against fees: hence typically undercharged

- Monetary union does not require fiscal union
  - It does require a credible no-bailout commitment
  - This operates in US (cf. 2% vs. 4.5% for state bonds)
  - Result of history, and clear commitments
  - Feasible in EU (just my opinion)
Understanding federalism

- Normative theory: Optimal governance should
  - Realize economies of scale
  - Oversee area to which spillovers extend (internalize externalities)
  - Hence subsidiarity
Political economy of federalism

- Fundamental tradeoff
  - Benefits of central provision – scale, uniformity
  - Costs of distance from state preferences (local median vs. federal median)
  - Benefits of centralization vs. distance from expected central policy
  - Implicit commitment from center to consider state preferences
The American experience

- Hamilton: Assumption pools credibility
- Federal median separates from South: secession
- War, crises → Need to internalize externalities
- More gradual evolution: Progressive Era, 1960s
  - Progressive Era: from regional markets to national market
  - Rise of national corporations + financial institutions
  - Natl firms central to Federal regulation (positive and negative)
  - Money-center banks led push for Federal Reserve
- Those with most to gain lead (banks for Fed)
- Others need assurances (regional banks)
Application to the EU

- EMU → greater need for central policymaking
- Those with biggest stake in single market at fore
- Closer to EU median, more likely to support delegation to EU - across and within countries
- Expected to have more influence over EU policy, more likely to support delegation to EU
- Others need assurance of impact on policy
- Role of shocks
  - Crisis response and its impact, which raises a problem
Trust in the EU and national governments

Graphs by region

Proportion Tending to Trust

Creditor

Debtor

EU Trust
National Trust
“in Order to form a more perfect Union….”

- EU needs more common institutions, instruments

- Questions, both academic and practical:
  - Whence the impulse – esp. given crisis history?
  - Who will support greater centralization?
  - How will all member states be assured of responsiveness?
  - How to do it all in less than 200 years?