



## Micromanaging European Reforms is Sowing Disunity

**“More Europe” is not necessarily the solution to ensuring a robust domestic reform agenda in member states.**

The agreement between Greece and its Euro partners is full of very detailed policies to be approved by the Greek government in the coming week. How did we end up in a situation where the domestic policies of a Euro country are decided by other countries? I recently wrote **a paper** and **an article** on the European reform agenda where I discussed the role of Europe in the reform process. Given what we’ve witnessed over the last 24 hours, it’s appropriate to revisit the key arguments I made.

Historically Europe has served as a catalyst for reform in some of the least-advanced EU economies. Through the imposition of requirements to join certain European initiatives it has fostered enough social consensus around the need for compromises. As an example, it worked well to transform and standardise the macroeconomic institutions of European countries, especially when it came to monetary policy and inflation.

But these dynamics are not always productive. Reform is ultimately a domestic political business where trade-offs are being made between economic efficiency, social goals and the way power and income are distributed in a society. Always making Europe the reason why reforms need to happen is likely to generate unhealthy dynamics. In addition, it is not always easy to link reforms to the benefits of European integration.

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### The realism

The only way to change these dynamics would be through a much more contractual and ex-ante approach to reforms. This was partly the spirit of regulations of the Maastricht Treaty that established rules of behaviour to be a member of the euro. But, as experience has shown, those were not enforceable rules. The rules only worked well as an entry condition but once the entry decisions were made the rules became very weak. Rules have been renegotiated, changed, and violated on numerous occasions. Why not make the entry conditions more binding? The reality is that if countries were asked to reform or adopt irreversible commitments before joining any process of European integration, there would be very few members of the European Union or the Euro area left.

Europe needs to find a way to deal with countries and governments that do not want to go along with the reform process or are unable to do so. At the end of the day, the speed of reform remains the decision of individual countries. Its citizens are the ones that will suffer the consequences of no reforms and low growth. This is true for any country, advanced or emerging, and this is true for Europe.

The reason why the reform debate becomes more visible and relevant in the European context relative

to other advanced economies that struggle with similar issues of performance is that the process of European integration might occasionally force countries to move together. When you share risk via the balance sheet of a central bank or when you design a programme of transfers from rich to poor regions, the reform agenda becomes a supranational issue and no longer a purely national debate. Maybe Europe needs to find ways to separate the two, either through a much more contractual approach to institutions that leaves no room for further negotiation (for example, a true no bailout clause) or by changing the design of those institutions so that the links between countries and the shared risks are minimised ("less Europe"). This might be suboptimal and come at a cost of reducing the effectiveness of those institutions, but it might be the only way to make the process of European integration and economic reforms compatible.

Maybe "more Europe" is not always the solution to all the European economic problems.

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