CHALLENGES OF THE RECENT FINANCIAL CRISIS UPON THE EUROPEAN UNION ECONOMIC GOVERNANCE

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Abstract
The process of economic governance constitute a property or a characteristic for a multitude of areas including markets, communities, societies, state, being considered a triggering factor at regional, national or supranational level. The European Union economic governance incorporates some key features, namely in this case the decisions are made as a result of an interconnected action between a complex network that implies different levels of governing. The purpose of this article is to investigate the obstacles that the process of EU economic governance had to overcome during the recent financial crisis and the measures that the responsible authorities adopted in order to improve the general efficiency of this system. The main conclusion of this article is that the recent financial crisis highlight the limits that the European Union economic governance had in implementing economic policies that assure a smooth path towards sustainable growth and convergence in the context of a continuous process of integration between the member states. The new model of economic governance concentrates upon a mechanism of monitoring and early reporting of any macroeconomic imbalances as well as an intensified monitoring activity within the budgetary field.

Keywords: European Union, economic governance, financial stability, banking union, fiscal union

JEL Classification: O12, O43

Acknowledgement
This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/134197 „Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

1. Introduction

The concept of governance may be defined taking into consideration a series of dichotomies such as: "governance" vs. "government", "private" vs. "public", "formal" vs. "informal", "flexible" vs. "rigid". Pierre and Peters (2005) states the fact that in what concerns the literature in the field regarding the economic governance at the EU level, this may be characterized as being more descriptive and normative than analytical.

The European Commission, as a main institution of the European Union and as a basic actor within the legislative and executive process, defines the economic governance process” as the ability of the state to serve the citizens”. This implies rules, process and compartments through which the interests are highlight, the resources are managed and the power is exercised within a society.

Another discussion is related to the concept of efficient and inefficient economic governance. At the EU level the term of efficient economic governance was later debated, the first use was in 1991 within an official document of the Council of the European Union through which there were established the implications of the union in supporting the emerging economies in developing what is generally called efficient economic governance. Despite the fact that this concept was first used by the World Bank, it was adapted to correspond to the needs and structures of the member states of the European Union. The developed states within this structure such as Luxembourg, Germany or Great Britain, incorporated within their national policies aspects related to human rights, democracy or governance since 1989. Also, the northern states had a strong interest in this sector. On the other hand, the countries from Central and Eastern Europe present a number of vicissitudes regarding this aspect. Corroborating these items represented a main concern that triggered the inclusion of it as an essential criteria a state should fulfill before becoming a member of the European Union, namely the Copenhagen criteria concerning the political aspects.
The purpose of this article is to investigate the obstacles that the process of EU economic governance had to overcome during the recent financial crisis and the measures that the responsible authorities adopted in order to improve the general efficiency of this system.

2. The economic governance of the European Union

The economic governance profile developed by the European Commission includes nine basic components, each of them targeting a specific element. Table no.1 details the structure of the economic governance profile as detailed by the European Commission.

<table>
<thead>
<tr>
<th>Components</th>
<th>Elements</th>
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<tbody>
<tr>
<td>1. Political/democratic governance</td>
<td>a. Human rights</td>
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<td>b. Basic liberties</td>
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<td></td>
<td>c. Electoral processes</td>
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<td>d. Principles of constitutional democracy</td>
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<td>2. Political governance/Rule of law</td>
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<td>3. Control of corruption</td>
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<td>4. Governmental efficiency</td>
<td>a. Institutional capacity</td>
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<td></td>
<td>b. Public finance management</td>
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<td>5. Economic governance</td>
<td>a. Private sector/policy of market stimulation</td>
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<td></td>
<td>b. Natural resources management</td>
</tr>
<tr>
<td>6. External and internal security</td>
<td>a. Internal stability/conflicts</td>
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<td></td>
<td>b. External threats / Global security</td>
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<td>7. Social governance</td>
<td></td>
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<td>8. International and regional context</td>
<td>a. Regional integration</td>
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<td></td>
<td>b. Implications in regional initiatives concerning governance</td>
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<td></td>
<td>c. Migration</td>
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<td>9. Partnership quality</td>
<td>a. Political dialogue</td>
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<td>b. Actors outside the states</td>
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In the category of indicators listed in the table above, just the last three ones were elaborated by the members of European Commission, the first six ones being modeled by the World Bank. These indicators are interconnected both with the political component of the economic governance, as well as, with some aspects related to the evolutions of the emerging states. Furthermore, there are taken into consideration characteristics of the legal instruments, management of the economic policies and the implementation of different social policies.

The assessment of the impact that the recent economic crisis had upon the economies of the member states highlights the fact that this was strongly influenced by the poor economic governance. Being based on a weak institutional structure, the financial crisis was developed as a result of the lack of regulation at the supra-national level and the absence of some economic policies orientated towards promoting a sustainable economic stability.

Paul Krugman (2010) considered that the European economic governance during the crisis was based on erroneous diagnostic methods that lead to unrealistic solutions. In the absence of a budgetary solidarity between the member states and a federal authority, the states used structural policies, budgetary discipline and regulations. Also the adverse response of the states in developing a fiscal union, as a complementary element of the existing banking union, proves once again the inability of the governing authorities to maintain economic stability.

Moreover the recent financial crisis highlight some main limits in the existing framework of the European economic governance, especially if we take into consideration the implementation of the policies of assuring economic stability and for maintaining it to a sustainable level in the context of a continuous process of integration. Although the main objective of the European Union is the harmonization of the interests of the member states, this goal is difficult to achieve taking into consideration the differences in the social, economic and political framework that exists nowadays between the countries (Pop, 2015). Beyond the objective of achieving a sustainable level of convergence in what concerns macroeconomic indicators, in order for this process to be a complex one, a special consideration should be
The economic and financial crisis from 2010 was perceived by many experts in the field as one of the most important crisis from all the 60 years of European integration. One of the triggering factors for this situation was the fact that the states concentrated their economic convergence and growth models only upon a short term period, without taking into consideration their future effects. Greece for example, admitted that it manipulated the indicators evaluated within the nominal convergence criteria requested for a state to enter the Euro zone. Therefore, by the moment when the current crisis outbreak, Greece confronted with a strong crisis of sovereign debt that imposed the urgent intervention of the International Monetary Fund and the European Central Bank. Also Ireland confronted with a severe crisis within the banking sector and for the case of Spain the main triggering factor was the speculative bubble from the credit sector. Romania also registered important imbalances in what concerns the fiscal position, this hypothesis being also valid for the case of Italy. All these elements generated negative effects upon the evolutions of the macroeconomic indicators and the states realized for the first time the importance of the sovereign risk in developing economic growth models.

All these evolutions were a strong indicator in favour of the fact that the recent financial crisis, beyond its implications in the economic field, represented a main consequence of the weak regulations of the economic governance instrumented by the institutional framework of the European Union. The challenges of the recent financial crisis highlight some major discrepancies of the economic governance system within the European Union, namely the fiscal framework of the Maastricht Treaty and the Stability and Growth Pact on one hand, and the Treaty of Lisbon on the other hand (Ioannou, 2014).

The framework regarding the economic governance prior to the crisis was based upon the principles promoted by the Stability and Growth Pact, which embodied the basic requirements regarding the coordination of the fiscal policies across the Economic and Monetary Union. Its primary role was to promote a series of efficient public policies and to manage budgetary discipline as an essential conditions for an optimum functioning of the Economic and Monetary Union. The Stability and Growth Pact includes both a series of corrective and preventive measures.

The Lisbon Strategy was elaborated in March 2000, and its primary objective was to “transform the European Union in the most competitive economy, able to promote the sustainable economic growth of the member states based upon knowledge, social cohesion and labor force”. In order to fulfill all these objectives, this strategy included three major pillars namely (Ioannou, 2014):

- **Economic**: political measures that target the increase of the productivity, innovation and competitiveness;
- **Social**: that target significant improvements of the European model of social development, concentrating upon social exclusion and creating new jobs;
- **Environment**: sustainable development.

Despite the fact that the objectives promoted by the Lisbon Strategy were extremely optimistic, the studies in the field highlight that in the post-Lisbon period, the performances of the member states of the European Union were not the target ones: the increase of the GDP/capita was lower than in USA and the long term productivity was much higher in US compared to EU. Crel (2005) states that: „the European Union has a deficit in developing a mix of structural policies and implementing new reforms to promote a coherent economic governance”.

Collignon (2008) considered that the failure to meet the objectives established through the Lisbon strategy was due to the inability of the institutional framework of the EU to improve the economic performances.

Despite the fact that there is a relatively high integration level across European Union member states, only recently the countries agreed to give up their sovereignty over financial supervision and the management policies of the crisis. Considering this aspect, it was developed the Banking Union that is based on three main elements:

- The Single Supervisory Mechanism
- The Single Resolution Mechanism
- The common framework of deposit guarantee scheme

The Banking Union, elaborated as a results of the actions of the chiefs of the states and governments has as primary objective the consolidation of the Economic and Monetary Union, as well as the establishment of a new set of rules and measures, for the group of states that have adopted euro as their national currency as well as for other members of the EU that wants to join the Eurozone. This new regulatory framework allows, on one hand, an early warning system of the crisis and on the other hand a more efficient system of crisis management. The functioning mechanism of the Banking Union is detailed in the figure above (Fig.no.1):
Taking into consideration all these aspects we may formulate the following conclusions regarding the impact of the recent financial crisis upon the need to reconfigure the institutional and political framework of the European Union in what concerns the economic governance:

- The need to transfer the ability concerning the development, management and implementation of the policies regarding economic stability from the national to the supra-national level. The transfer of sovereignty on national economic policies is a necessary condition in order to deeper even more the integration process and moreover a primary aspect needed to modernize the general framework of economic governance;

- Achieving convergence in terms of institutional framework in order to ensure political integration. Pasini (2013) considered the fact that: „the struggle of the European elites in providing a response from the institutions to the recent financial crisis was not a failure of the modern theories to deliver responses regarding the coordination of the macroeconomic problems, but rather the refuse to accept the transfer of the political and democratic control of the economic policies at EU level”.

- Strengthen the existing regulatory framework of the EU. The development of a normative framework that would allow maintaining a fiscal discipline as well as some measures of early warning of the economic, fiscal and monetary deficiencies.
In the period after the crisis, through the implementation of the “Six Pack” as well as the “Two Pack”, the authorities intended to redefine the main pillars of the European architecture regarding economic governance. Moreover, these transformations at fiscal level were corroborated with the adoption of the 2020 Strategy, as a successor of the Lisbon Strategy and are aimed to reshape the governance models namely the mechanism of economic and monetary surveillance.

The new approach of the European institutions towards the economic governance system is based on an interconnected action between the following elements:

At the French - German summit from January 2012 there were established the new pillars of the European economic governance namely: supervision, discipline and budgetary rigor.

The new European Union economic governance model has the following structure:

3. Conclusions

The recent report developed by the European Central Bank in November 2014 concerning financial stability highlights the fragile macro-economic framework of the Union, and especially of the Eurozone, with low rates of economic recovery. Moreover the recent geopolitical tensions, although without massive effects at global level, seems to accentuate even more the risk associated to the moderate economic growth, generating an increase of the risk aversion of the external investors to the EU markets.

Despite the existing optimism across the financial markets, the capital flows are relatively low. All these uncertainties regarding the future evolutions of the economic growth and convergence, corroborated with the accentuated vulnerabilities of the macroeconomic and financial indicators highlights the need to implement some structural reforms that would determine an equilibrium between the developed and emerging economies from EU (ECB, 2014). The new economic governance framework should target these objectives and moreover should concentrate upon using its instrument in promoting high rates of economic growth and convergence across European Union member states.
4. Bibliography


*** www.ec.europa.eu