

# The European Union: the core and the geographic periphery



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Tirana, November 1, 2018

## “Ever closer union”

- ▶ Juncker plan of “Europe 2022 provides comparisons of five speeds of core integration.
- ▶ Mirrors general structure of studies of EU, in which the “ever closer union” means studying how fast the union progresses, not who progresses in it.

# Good environment for regional alliances in a dangerous global world



But the EU, as the others, is not “one size fits all”

- ▶ Diversity of positions reflected in Commission diagram below.



### European Union

#### Euro area



#### Schengen Area



#### European Free Trade Association



#### Council of Europe



#### European Customs Union



NATO



## Euro area the core; the rest is a multi-directional periphery

- ▶ Only 17 of the 48 countries of the European Council in the Maastricht/Schengen core
- ▶ Even within EU, 9 countries remain outside Eurozone
- ▶ Unlikely to change rapidly: recognition of this diversity to be analysed and welcomed

## Maastricht and the Euro

- ▶ Under the Maastricht Treaty all countries without opt-out had to join EZ once they satisfied the three conditions (central bank independence; inflation; debt).

## Problems with Maastricht

- ▶ Unfair on new members
- ▶ Political pressure for premature entry (Greece)
- ▶ Inadequate support structure (lender of last resort)
- ▶ Economically questionable (Italy)



## Countries will remain outside

- ▶ Referenda (Sweden, Denmark)
- ▶ Political dislike (UK, Czech)
- ▶ Countries not ready (new EU members)
- ▶ Criteria in practice not binding
- ▶ Counter-examples: unilaterals

## How to avoid being in the ever closer union

- ▶ Legal exception: derogation for UK, Denmark
- ▶ Ignoring the rules: new members have no scope for derogation
- ▶ Devil is in the detail: accounting rules; enforcement; implementation

## Banking union a formal recognition one size may not fit all

- ▶ Countries in EZ have to join; optional for those outside
- ▶ Structure located in ECB to avoid Treaty change; Schauble's "timber framed Banking Union"
- ▶ But all countries likely affected, since all have EZ banks

# Protections

- ▶ Double majorities needed, for instance in EBA; threatened in event of UK withdrawal from EU
- ▶ Super-majorities

# What is integrated? (1)

- ▶ Single system with entry conditions and derogation: exchange rate
- ▶ Pan-EU regulation and supervision
  - ▶ ESMA: credit rating agencies; competition
- ▶ Pan-EU regulation
  - ▶ EBA: banks; EIOPA; ESMA
- ▶ Euro area and volunteers
  - ▶ SSM

## What is integrated ? (2)

- ▶ National supervision within EU regulatory framework: insurance; capital markets
- ▶ National without EU regulatory framework: macroprudential: soft power: EU “warnings” and national implementation
- ▶ EU framework without implementation
  - ▶ Accounting: IAS, but differences eg on NPLs
- ▶ No EU framework: fiscal

## Sub-areas may have integrated beyond EU/euro area

- ▶ Scandinavia: Finland; Denmark; Sweden; Norway; Iceland
- ▶ UK in 2025?:
  - ▶ Eire: Euro area
  - ▶ Scotland: EU non-Euro
  - ▶ England: EU?; EEA?; Canada?
  - ▶ N Ireland: spectrum from Eire to England

# Macroprudential policies management possible example for future structures

- ▶ ESRB contains banking/insurance/  
securities regulators and authorities
- ▶ Leadership amongst the non-core
- ▶ Presence of non-EU EEA: can do  
everything but vote
- ▶ Location at ECB has advantages and  
drawbacks



## Questions for the non-core (1)

- ▶ How far is there scope within Maastricht Treaty for varying exchange rate and monetary policy arrangements?
- ▶ How far can EC/ECB prescriptions be seen as minima?
- ▶ Why should a country not join the SSM; how far is it anyway affected by the SSM?

## Questions for the non-core (2)

- ▶ Is there common ground amongst the non-core? Is this jeopardized by the illiberals, by a possible Brexit?
- ▶ Are relationships amongst the Scandinavian countries affected by their different policies e.g. on exchange rate?
- ▶ Is transparency a universal value? Is the financial system threatened by non-transparency e.g. on accounting?

## Possible conclusions (1)

- ▶ Governance arrangements need to reflect that “ever closer union” is oversimplification
- ▶ Protection needed for the “non-core”—double majority at EBA
- ▶ Equal rights for new entrants: derogation cannot just be for those at Maastricht
- ▶ “Basic values” challenge to the illiberals

## Possible conclusion (2)

- ▶ EU not a behemoth; considerable variation exists within it
- ▶ Important to participate, to be at the table; countries will be much affected anyway
- ▶ Some areas still work in progress; wider integration needed: capital markets union; macroprudential
- ▶ Possible need for Treaty change
- ▶ Role beyond the economic

Thank you!

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the right side of the frame, creating a modern, layered effect against the white background.