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Uncertainty and Europe's Macroeconomic Failure

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Introduction

According to an alarming article published in *The Economist* in October 2023: "the EU economy is now 65% the size of America's in dollar terms, down from 90% just ten years ago" although "productivity has grown faster in Western Europe than in America". Apparently, productivity cannot be blamed for this widening gap: a study made in 2023 by Bruegel's senior fellow Zsolt Darvas, based on IMF World Outlook data, found that "the EU has outperformed the US on per-capita output growth".

Why then such a gap? The economic literature explored possible failures of the European economic structure and policy instruments to address major macroeconomic challenges, originated by the great financial crisis and European response to it. Among the flaws highlighted: the inability to provide an optimum balance between risk sharing and moral hazard; a policy-mix in which monetary and fiscal policies are implemented at different layers of government, thus making it difficult to find a synergic compromise; a pro-cyclical use of a few instruments of control, such as the output gap; the liquidity trap that characterized monetary expansions since Draghi's quantitative easing; the ineffectiveness of tightened monetary policy in tackling the recent supply shocks, unless with huge time lags, etc.

Some authors have further suggested that failure should be attributed to the paramount intellectual influence of the neoliberal thought on European policymaking, imposed by the political and cultural hegemony of German *Ordoliberalism*, that intergovernmental institutions and decision-making mechanisms helped emerge as the leading ideology. According to this line of thought, instead of providing shelter from the appetites of policymakers – as repeatedly suggested by Hayek's supporters – given its procyclical and gaps-preserving bias, this allegedly weakened the European economy as a global actor. All these features certainly exerted some influence on the effectiveness of Europe's economic governance.

This note suggests that, as a complementary explanation, we should also explore the negative impact on the EU macroeconomic performance of what we call *constitutional uncertainty*, by which we mean that not only economic institutions are unstable, but that the rules themselves that govern their interactions are uncertain, evolving mostly unpredictably (not in response to expectable logics).

The EU is a set of multi-layered and overlapping institutions, governance rules and practices (often *irrational*, in the sense of *not responding to any established and stable cost-benefit analysis and therefore not rational in terms of the economic praxeology*), formal and unformal decisions that are the outcome of multiple features, including corporatist struggles, cultural backgrounds, intellectual and theoretical assumptions, sectoral political interests, national consensus seeking, etc. European economic governance, as it has been evolving in the last three decades (since the path that led to the euro), is precisely embedded in such a changing framework.

In the next sections we shall assume a historical perspective to highlight the impact on macroeconomic performance of failed attempts by the main actors of economic policy in Europe to react to crises, within an evolving and unpredictable framework of economic governance constrained by constitutional and decision-making uncertainty.

We shall quickly explore the three main subperiods of recent European integration history (one section will be devoted to each of them) that are particularly relevant to testify of such increasing uncertainty, from the 1990s until now.

1. Supranational monetary policy and fiscal constraints

Padoa-Schioppa's 1982 paper on the "inconsistent quartet" was key to set the agenda for European integration since the 1980s, using *contradictions* as its main engine: once you liberalize the markets for the inputs of production (capital and labour) you cannot have a fragmented market for outputs without triggering massive delocalization; and once a single market is granted, relative prices cannot be influenced by uncoordinated country-specific monetary policies, that may affect them by simple political decisions. Hence the path to the euro, after the liberalization of capital and labour movements between 1985 and 1995 and the single market since 1993, whose fulfilment was sanctified by the birth of the European Central Bank in June 1998.

Two points need to be highlighted. The first concerns the economic side of the first proposal for an *Economic and Monetary Union* in the *Delors Report* of 1989; the second its subsequent governance infrastructure. The celebrated *Delors Report* made it very clear that a monetary union would not be sustainable without an economic union. Furthermore, the economic literature usually forgets to underline that the two *Intergovernmental Conferences* were convened in 1991 to discuss both *economic* and *political* union, deemed necessary to set monetary union on a sustainable path. These conferences failed to deliver a workable compromise, and the subsequent Maastricht Treaty was based on two major features: a) only monetary union would be pursued; b) intergovernmental decision-making was put at the wheel of the European economy, constrained by a very narrow pathway through the rocks of fiscal rules (the Maastricht's convergence parameters). The incoherence of this economic policy framework, already highlighted by a few US economists, provided the incentives for the speculation that hit the EMS in 1992-93: convergence required differentiated economic policies that were not coherent with the defence of exchange rate parities within the EMS.

Anticipating that the problem laid in the non-credible European architecture in front of the world evolution (that would require greater European global actorness), an attempt was made in December 1993 by Delors to suggest a clear-cut structure and competences for the EU, allowing for the provision of European public goods. He suggested supplying both private and public financing for such collective goods – mainly the digital and green transitions that were already in progress at the global level – and collecting capitals (project bonds) from financial markets. It was not only a matter of upscaling French indicative planning at the European level but providing the supranational public authorities with the power to build a supranational sovereignty along the national (and local) ones. Despite unanimous formal acceptance, the *Delors Report* clashed with both French and German interests and was immediately set aside.

Paradoxically, given the turmoil that almost each country experienced in those mid-1990s, the following convergence path towards the euro had a rather stable structure, as each country was held responsible for the achievement of the criteria for accession into the euro club within a virtuous context characterized by expectations of diminishing interest rates, that helped fulfilling convergence targets. Despite many political and financial turbulences, economic growth was almost unprecedented in Europe after the 1992-93 crisis.

Things would change after the establishment of the ECB. The economic literature usually underlines how, since its birth in June 1998, monetary policy ceased being a national issue to become a supranational one. This truism is, though, only partly true as European peripheral countries (all but the former German mark area), especially since the liberalization of capital markets and greater monetary agreements with the EMS, were forced to follow Germany's monetary policy to avoid capital outflows. It is true that only since 1998 there was one single monetary policy, but the *anchor problem* in Europe had been imposing a DM supremacy much earlier. Since the establishment of the ECB there was only one single official interest rate across Europe, but spreads, as we have seen with the sovereign-debt crisis, have made country-specific risk premia extremely variable and often diverging, with pro-cyclical consequences on national budgets, via debt servicing.

The macroeconomic policy infrastructure in the EU in the first decade of the euro should be described rather as a system with an indicative supranational monetary guidance (based on the ideology and instruments of the Bundesbank), country-specific monetary markets (dominated by path-dependent structures of financial markets, banking systems, and social institutions), and decentralized fiscal policies, coordinated through the loose prescriptions of the *Open Method of Coordination* (OMC) within the constraints (allegedly) imposed by the *Stability and Growth Pact*.

This framework should be analysed considering the transition period that preceded the single currency, resting upon a few optimistic assumptions. First: that markets would behave as a neutral guidance to national economic policy, showing the virtuous path to reduce transnational (negative) externalities thanks to *potential* sanctions for deviating behaviours. Such optimism proved wrong, as in the following years governments resisted market pressures.

Second, there was a widespread belief that stability would bring along growth, a logic embedded in the *Stability and Growth Pact* of 1997. This was, in turn, the resultant of objective reasons – the overwhelming growth of inefficient public sectors in some countries during the previous decades, suggesting that freeing resources from the public sector and allocating them to the private one would result in higher efficiency – and dominant intellectual myths (neoliberalism, privatizations, deregulations, etc). Again, such optimistic expectations proved misplaced.

Third, economic theory provided a rationale for monetary union, suggesting that the optimality criteria for monetary areas are endogenous: once you (politically) choose to make a currency union, all the conditions for its long-term sustainability will start setting in motion, providing a self-fulfilling mechanism. Given that Europe was widely recognized not to be an Optimum Currency Areas according to most of the criteria set in the previous literature, such theoretical change provided a robust support to policymakers for monetary integration.

As a crucial complement to these three optimistic factors, all European governing elites were confident that a constitutional process would be in place to provide Europe with a more stable set of rules, that might allow decision-making to be more effective and less reliant on the tyranny of minorities. We know what happened to the European Convention and the resulting European constitution, that was rejected by France and the Netherlands in Spring 2005, putting an end to the constitution-building process. To make things more complicated, this failure took place in the very moment when a major enlargement was being implemented, that increased the number of potentially destabilizing actors.

The alleged existence of the above-mentioned self-adjusting mechanisms suggested that legally enforceable rules were an unnecessary intrusion of politics into the economy, as markets (and political commitment) would provide the incentives and framework for the smooth functioning of the system. In this context, in which expectations were confident that a constitutional change would follow, allowing for a federal supranational sovereignty to be established along national ones, the adoption of the *Open Method of Coordination*, officially introduced in 2000 together with the *Lisbon Strategy*, was pretty in line with the evolving expectations of the whole structure of economic governance.

The OMC, being a method of *soft governance* only aiming at spreading best practices, without any binding provision, appeared as the best transitional instrument to reduce the impact of the nascent supranational governing structure upon national policymaking centres. It appeared as a rational choice in a moment in which each country had made extraordinary efforts for convergence and greater supranational collective responsibility was on its way. The OMC would perfectly fit the intergovernmental trend of European governance to defend national prerogatives, at the same time pretending to act jointly. An excellent example of constitutional uncertainty: on the one side you argue in favour of a strengthened supranational centralized coordination system; on the other side you deprive such coordination system of any enforceable instrument, allowing each single national country to pursue its own macroeconomic goals.

Events did not go the expected way, though. The terrorist attack of 11 September 2001 and the subsequent wars in the Middle East triggered a massive cost-inflation via oil shock, stressing all western economies while a real estate bubble was mounting in the USA, induced by reduced interest rates. Such a real estate bubble, although usually neglected, was accompanied by a similar one in Europe, due to the need to safeguard savings against the oil-imported inflation and to the changeover to the euro, which suggested getting rid of cash deposits before their purchasing power would be (mostly) halved. This new, unusual macroeconomic framework would require a coherent set of constitutional rules to allow investments to profit from expansionary monetary policy; but this did not take place. The *Sapir Report* of 2003, which recalled the Delors' *White Paper* of 1993, was soon set aside. It was another – failed – attempt to provide a more clear-cut systematization of the multi-layered European economy, strengthening the supranational level, that the European Council opposed.

Furthermore, failure of the European constitution and the enlargement process took place while France and Germany were putting the SGP under severe stress, imposing a revision of the Pact itself. The formal economic constitution designed to steer the fiscal policy had turned out to be unpredictable. The Pact was not working, neither as an incentive to pursue sound budgetary policy, nor as a threat to avoid deviations from the right path. The engine designed along Padoa-Schioppa's inconsistent quartet, that relied on a top-down enlightened will by European elites to further progress on integration, thus fixing contradictions, and supposed to culminate in the constitutional treaty, was stopped. This heavily impacted on the ability to manage economic policy in a context of both multilayered challenges and deteriorating global framework.

As noted by Adam Posen in a small but enlightening volume published in April 2005 by the *Institute for International Economics* the early market enthusiasm for the euro had kept (and was still keeping) the potential widening of spreads hidden beneath the mask of interest rates convergence, while "there are signs that over time – as the euro itself and the independence of the ECB are taken more for granted – there will be more distinction by markets between different members' debt obligations." What would happen after 2010 shows that he was right. Consolidation, paralleled by privatization processes steered from governments and mainly following corporatist interests, brought about even greater uncertainty on effective demand, suggesting investors to opt for financial speculation rather than long-term investment in the real economy. Households, on their part, sceptical about the success of consolidations, preferred to buy real estate rather than consuming, or investing in financial assets, thus jeopardizing the potential boost on fiscal multipliers.

When the financial crisis hit Europe, turning it into a region-specific (eurozone) sovereign-debts crisis, such governance failure was paralleled by the prevailing uncertainties of the general policymaking structure. Despite the dominant narrative of strict fiscal rules, the Lisbon Treaty provided a compromise increasingly relying on intergovernmental decision-making, thus making the unpredictable game of national and sectional interests prevail over rules-based expectations. This is the period when Europe and the USA started diverging manifestly in their macroeconomic performance.

2. The own-house-in-order logic and the sovereign-debt crisis

Things did not fundamentally change after the revision of the Pact and the failed constitutional treaty. In late November 2005 Angela Merkel became German Chancellor, announcing a strong domestic fiscal consolidation. It was the triumph of the "own-house-in-order" logic that underpins the *Ordoliberal* ideology. One year later, when Germany took up the six-months Presidency of the European Union (from January to June 2007) in the very moment when the Lisbon Treaty was being written down, she made sure that all other European countries would behave the same way, pushing the whole continent towards budgetary consolidation and increasing intergovernmentalism. Sovereignty was, apparently, firmly placed back in the hands of national governments, but constrained by German directives.

This, however, did not result in any precise direction taken for the European economy. Many countries resisted such deflationary bias. Furthermore, each national government was allowed different room for maneuver, given past debt-to-GDP ratios, with risky diverging and cumulative effects in macroeconomic performances. This was the contradictory framework agreed upon soon before the bursting out of the US-led financial crisis: an architecture whose fiscal budgetary responsibilities were decentralized at the country level, constrained by strict fiscal rules, and collective choices strictly dependent upon the unanimity rules, dominating the EU intergovernmental bodies. With one additional problem: the path of adjustment required to consolidate debt was not credible in terms of political ownership (why should a ruling national government reduce its spending if this proved negative on consensus?). And no progress was achieved in promoting convergence.

When the US-originated financial crisis hit the world and the resulting coordinated monetary expansion by the five major central banks generated a mass of liquidity that the Greek crisis set in motion, speculation shifted towards the eurozone sovereign-debts. Political ownership is crucial to the effectiveness of economic policy. In Europe, fiscal constraints were blamed upon the European institutions, while (limited) expansionary choices were ascribed to the heroic efforts of national governments. In fact, constraints were due to the lack of political will to decide at the supranational level with full legitimacy, the latter being intermediated by national governments.

Under the German intellectual and political hegemony (guided by the *own-house-in-order* logic), the EU responded introducing new – and further tightening old – fiscal rules: the Two Pack, the Six Pack, the European Semester, the Fiscal Compact, to which the European Financial Stability Facility and the European Stability Mechanism should be added. This framework was meant to provide a stronger command of supranational institutions, steered by a collective body (the Council) mostly relying on unanimity (therefore on the law of the strongest, hidden under technocratic logics), on national policymaking; in fact, it turned out to prove detrimental to the perceived quality of democracy, which triggered populist anti-EU narratives and reactions. We already underlined somewhere else that this was not due to a deliberate choice to influence policymaking with a neoliberal, market-radical ideology, but was only instrumentally used for the preservation of power at the national level.

The 2008 crisis and its faulty management decree the starting point of the EU widening gap in GDP growth with all major competitors, US included. This is the period when the economic impact of uncertainty became more manifest, on both investment decisions and monetary policy. Investment gaps in different EU countries proved crucial for delivering asymmetric macroeconomic performances across the euro-area. Despite negative nominal (and real) interest rates, the mechanics of investments proved to be quite un-mechanical and investment rates dropped all over Europe. A study published in 2021 by Vanlaer and others shows that "private investment in the EU dropped significantly when the Global Financial Crisis (GFC) erupted in 2007, and has failed to recover to pre-GFC levels ever since".

Trying to explore the rationale of this, we assume here that the marginal efficiency of capital not only depends on expectations concerning future demand (as Keynes would have argued), but also on the predictability of the constitutional framework in which both firms and consumers make choices. If there are constitutional uncertainties as concerns who will provide crucial public goods and take key policy decisions, households might prefer to increase savings rather than consumption[58], thus weakening both the microeconomic return on investments and (negatively) impact, from a macroeconomic perspective, on fiscal multipliers. This further means that no super-multiplier would ever materialize, and the economy would turn out to be performing poorly. An interesting point concerns the irrelevance of being *in* or *outside* the euro-area, as the two indicators did not differ substantially (even because pegging the euro and convergence to its macroeconomic indicators were/are a dominant tract of all EU, non-eurozone countries). Despite formal national sovereignty, such countries found themselves constrained within the same framework of decision-making uncertainty, in a context of high intra-EU transnational interdependence, that made *de facto* impossible for them to run autonomous economic policies and made them unable to fence off negative spillovers originated in the eurozone.

As concerns monetary policy, Draghi's quantitative easing produced, especially in its first years, mainly a typical Keynesian-like liquidity trap, that hardly

[58] Unlike Keynes, we do not assume here a marginal propensity to consume close to 1: households may enjoy enough income to choose between immediate consumption and saving for later consumption.

reached the real economy. Expansionary monetary policy impulses either remained in the main tube of monetary policy (with liquidity deposited by commercial banks in their accounts at the ECB, in the first months after the credit crunch) or within financial institutions. They found it difficult to impact on firms and households, irrespective of the €500bn of the Juncker Plan, that mobilized around €3tn (private and public) investments in strategic industries between 2015 and 2021. It is mostly thanks to such funds (hence to a multilayered fiscal stimulus[59]) that a slow recovery took place in that period.

As concerns fiscal policy, this was constrained: at the EU level by a budget capped at 1% of the GDP (the Juncker Plan was financed outside the EU budget, trough the European Investment Bank); and at the national level by the increasingly rigid fiscal rules of the European economic governance designed and passed between 2010 and 2012, and by a strict State-aid legislation. To this restrictive framework, we should add a competition policy

[59] We would like to recall that the Juncker Plan was a fiscal stimulus from the European Commission that implied a co-financing to national and corporate investments in strategic industries, mostly linked to infrastructure and innovation.

entirely devoted to guarantee a competitive European market, not to allow the establishment and consolidation of European Champions that might play the competitive game on the global market, as happened with Commissioner Vestager resoundingly vetoing the Alstom-Siemens merger in 2019.

While European institutions were paving the way to more fiscal constraints (and widely perceived technocratic governance), governments increased their resistance against austerity, exploiting a widespread and increasing euro-scepticism. Again, it was a situation of constitutional uncertainty. As Véron warned in February 2012: “the Eurozone’s nation-based political framework is cracking at the seams: the ECB has set the timetable of Italy’s change of government; Greece may formally lose its sovereignty on segments of its economic policy; Germany’s chancellor is becoming a principal player in France’s presidential election. But while national political systems lose their autonomy, existing European institutions remain too weak and not democratic enough to provide an adequate framework for political decision.”

Europe was too far from a system of fully operational nation-based economic independent authorities to manage a crisis with a high degree of interdependence and intergovernmental decision-making; and too far from a fully-fledged federation to have a reactive and centralized response. Fiscal constraints could not replace the lack of effective political discretional power. Economic agents were not allowed to understand who the ultimate decision-making actor was. While the USA recovered from the crisis in two years, for most of the European regions it took almost one decade.

3. The age of fear: the *Next Generation EU* and global threats

The third sub-period under observation started in March 2020, soon after the bursting out of the covid pandemic. This major shock required bold steps, that were indeed taken: between March and July 2020 the ECB launched the *Pandemic Emergency Purchase Programme* (PEPP), abandoning the *capital key* rule, the SGP was suspended, State aid legislation relaxed, until the European Council agreed on the *Next Generation EU* (NGEU).

The reaction against the pandemic shock proved very similar to an emergency, Keynesian-like, expansionary package, aiming at reflation in each member State, according to country-specific choices, only vaguely guided by priorities set by the European Commission, among which the most important were the green and digital transitions. During Spring 2020, expectations grew for a *Hamiltonian Moment* in Europe, that might lead the EU to experience something like what the USA had experienced in Philadelphia in 1787. Such expectations did not last long, though. In the following months, the governance of the NGEU was placed in the hands of a political compromise between the European Commission and each Member State, whereby each country was – and still is – allowed to implement and monitor the actions (investments and reforms) expected and scheduled in each *National Recovery and Resilience Plan* (NRRP) and establish a dialogue with Brussels on the fulfilment of milestones and targets that are in fact far from being objectively verifiable. Although from a formal point of view the EC can deny the disbursement of further tranches of financial support, each State can retaliate by putting a veto on common polices, as we have seen in 2023 with

Hungary. We may expect this will result in a *formal success* of the NGEU, whose *real success* is and will be far from being granted.

Again, ambiguity did not allow private investments to become fully operational, as uncertainty undermined future perspectives on the efficacy of fiscal multipliers. If there is a gap between the *formally declared* and *real* fulfilment of targets, investors prefer to wait and see if the actions of the plan are indeed able to produce any multiplying effect that, affecting demand, may induce to invest. Given shrinking world exports, what will happen to demand in the domestic-European market becomes crucial. And this much depends on the effectiveness of the fiscal stimulus triggered by the NGEU.

The reform of the *Stability and Growth Pact* has also been adding uncertainty: the text underwent several major changes, with too many versions approved by different European institutions. The final, revised, Pact makes rules not-credible enough to be complied with, and may result in diverging behaviours by Member States.

Given the short-terms horizon of all the other anti-cyclical instruments that were implemented during the last years in Europe and that partially tried to fix previous uncertainties (PEPP, NGEU, SURE), the new macroeconomic framework, characterized again by a high degree of uncertainty on the future governing structure, the only instrument that might provide some guidance to expectations (again, only in monetary policy, though) is the *Transmission Protection Instrument (TPI)*, which gives the ECB a paramount discretional political power over sovereign bonds purchases. This has presumably reduced temptations for speculation in the last few months, as the stable dynamic of spreads has recently shown, but is not enough to restart or accelerate growth, and catch up with the US economy.

This is the reason why a few, authoritative, calls for strengthened European sovereignty have emerged in both academic and political debates. Proposals for a *European Defense Fund*, for a *European Sovereign Fund*, for other ad-hoc financial supports to establish greater supranational actorness have collected widespread intellectual support, but hardly any political sympathy by the EU leaders. As Draghi already underlined several times in the last few years, monetary policy cannot alone push on growth. Cabral suggested in 2002 that we are stuck in what she calls a *monetary integration trap*: “the euro is an expression of the EMU's incomplete sovereignty. The EMU is indeed a territory with a single monetary policy, centralized in an (apparent) sovereign fashion at the European level, yet diminished by the retained sovereignties within its member states: EMU member states are in fact the sovereign accounting entities for BoP purposes, they are the allocation centres for exports and imports, the centres of trade flows and payments, and of financial flows; ultimately they are the legal and accounting centres of financial assets and liabilities, and the public and private debt (credit) they owe (own) vis-à-vis other member countries is definitely external debt (credit)."

The current European policy mix is mostly inadequate to prevent a crisis; and is unable to trigger growth. Draghi and Lagarde repeatedly underlined that this is due to the mismatch between the policy stance of monetary and fiscal policies: when the PEPP was launched, Lagarde was quite careful to warn the European governments that without the assistance of budgetary policies, monetary policy would be ineffective, suggesting expanding fiscal policy at both national and European level. This is precisely what eventually happened with relaxed State-aid legislation and the NGEU.

When Russia invaded Ukraine, causing a dramatic supply shock to Europe, while global value chains were just starting to recover, the delayed restrictive stance on monetary policy in Europe reinforced cost-inflation and made prices to rise even further, spreading the social impact of inflation in all the EU27 economies. This was the time when a European budgetary policy should have forcefully emerged, as happened in the USA with the massive *Inflation Reduction Act*.

In Europe, on the budgetary side of policies, the EU is sticked to decisions that are incoherent with the rhythm of the challenges imposed by global competitors. The extraordinary, one-shot NGEU had just been implemented and there was no political asset to be spent on further collective debt again; the *Multiannual Financial Framework* had also been agreed upon already, with a mid-term review scheduled for early 2024 which only produced minor adjustments, while new agreements require unanimity. This is also the major flaw underlined in the Reports that Letta and Draghi drafted for the European Commission in 2024.

The result is that, on the side of expenses: “there are no direct expenses paid to European citizens by the EU budget, as typically found in other central budgets (e.g. unemployment benefits and other social benefits). In short, the EU budget – unlike state budgets – is not a ‘citizen budget’, and thereby lacks this democratic ingredient, which is ultimately a source of sovereign legitimacy”, as the Letta report suggests. Even the SURE mechanism (the EU unemployment scheme that supported national unemployment schemes during the pandemic) was targeted to Member States, not to citizens and/or firms, which makes again the relationship between Europe and taxpayers mediated by each of their governments.

On the revenue side of the European budget, this is based on *own resources*: an expression with an ambiguous meaning in the EU. According to the Treaties, *own resources* are both genuine tax revenues, levied by the EU directly (or indirectly through Member States) on economic agents, which in fact represent around 3% of total revenues, while most *own resources* are indeed *national contributions*, raised according to the standard calculations of nation-based GDP and population.

Such ambiguities not only give rise to anti-EU narratives based on mere country-specific accountancy calculations (how much one State contributes to the EU budget against how much it gets from the EU, which is nevertheless hardly calculable), but being based on a system relying on national consensus, there is no reasonable expectation to be made about the quantitative dimension of a future EU27 budget.

Another source of major uncertainty is given by the potential role of the euro on the international stage. Bob Mundell in 1998, just before the establishment of the euro, resoundingly declared that the single European currency would be replacing the dominant role of the dollar in international payments and reserves. While in international payments the share of the euro slowly and slightly increased, its share in world reserves remained stable since 1999, declining slightly in the last few years (and is now about 22%). The euro is far from providing an alternative to the US dollar. For several reasons.

The first is that the safety of a *safe asset* does not only reflect economic fundamentals, but also (mainly) the political and military strength of the underlying subject. From this point of view, it is well known that the EU does not only lack a joint military power, but also a mere single foreign policy. The second is that to be an international currency, you need to provide liquidity of last resort (and consumption of last resort) in case of major crises. Which is something that Germany and most Northern European countries are not (yet) prepared to accept. The third problem is that to become a fully-fledged international currency the euro would need to have a deep and liquid capital market, with European bonds for each possible yield/maturity combination, which is far from being implemented.

While expectations for an alternative *safe asset* to the dollar is called for with insistence worldwide, the euro does not seem to provide an answer to such demands. This adds further uncertainty, which is ultimately due to the inability to conceive Europe as a global actor.

Concluding remarks

We told here an exemplary story of failure. Europe, since the mid-Nineties and more manifestly after the 2008 financial crisis, systematically underperformed not only compared to most global competitors such as China – and partly India – (which was to be expected, given the catching up process) but also *vis a vis* the USA, a comparable economy in terms of productivity, technology, and development stage.

Given that such failure emerged in the last three decades, some observers have suggested a correlation with the birth of the euro: the new cage imposed upon national monetary policies would imply a forced domestic adjustment on wages, instead of an external adjustment on the exchange rate, that made aggregate demand decrease to regain international competitiveness. This, in turn, increased performance divides and unemployment, and diminished available resources for productive investment, disincentivizing them.

Noting the widening of the gap since the financial crisis, a few other authors put the blame on the flaws of the European economic governance (whose instruments were mostly established since 2010), mainly from a fragmented approach, highlighting single casual correlations with intellectual influences exerted by a pro-cyclical ideology, sectoral interests towards a dispersed policy mix, intergovernmental decision-making, flawed instruments of economic governance.

Without pretending to provide one more single-causal explanation for such failure, we highlighted the role of an unexplored aspect which needs to be acknowledged as a possible complementary factor of failure: a complex, ambiguous, ever evolving, and undefined framework of (un)balance between national and supranational powers and economic authorities, heavily influenced by country-specific political dynamics and consensus raising, diversified intellectual influences, and often contradictory corporatists interests at play.

These features, whose evolving interactions we briefly outlined since the mid-Nineties, resulted in European anti-cyclical policies to come systematically too late, too slowly and being too hesitant. This caused market agents to remain conservative, preferring short-term financial speculation to long-term investment, thus contributing to the financial vulnerability of the euro-area and to Europe's macroeconomic underperforming compared to other global players. Rather than putting the blame on the euro, we suggest that it was mainly uncertainty – that the economic governance architecture transmitted to economic agents, both households and firms – to hinder economic recovery and growth.

Such failure was not immediately manifest during the 1990s and early 2000s, as expectations for a political strengthening of the European global actorness were still widespread and the global international framework did not yet expose the increasing contradictions between the governance structure and relative economic weights of major countries: China was still an emerging market; Brazil, India and South Africa had not yet emerged as regional powers, while the USA were still playing the hegemon. This stable international situation came slowly to an end during the first decades of this millennium, before erupting into increasing global imbalances and major conflicts for the reshuffling of economic and political power in the most recent years.

Such evolving framework suggests that Europe is called to reduce the degree of uncertainty and provide a few anchoring elements to allow more stable expectations for market agents. Europe is at a crossroad: either it reduces its supranational constraints to national economic policy, allowing Member States to fully pursue their own path to growth and strategic alliances, or it is called to abandon with pressing urgency any reticence towards a supranational, multilayered system of economic governance, based on fully legitimate layers of government, from the local to the regional level. The engine of integration based on progressively tackling contradictions is no longer working. Contradictions must be fixed, in one way or another. It is not (only) a matter of having a formal constitution, but to decide the direction that Europe, as a complex, multilayered system, is willing to take and be consistent with it.

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