

Report on the Villa Vigoni Colloquium “*The Quality of Political Institutions in Europe: An Interdisciplinary Cross-Examination*”
Lovenno di Menaggio, June 14-16, 2015

Drawing together an interdisciplinary group of leading scholars from Italy, Germany and Switzerland, the Colloquium provided a forum to critically discuss the challenges facing institutions in the European Union. All participants agreed on the importance of improving the EU current institutional framework, which is characterized by deficits not only in terms of fiscal governance, but also in terms of democratic legitimacy and efficiency. In response to this situation, an intense and lively debate followed on how the EU’s approach to reforms is evolving after the Lisbon Treaty.

Bruno S. Frey (University of Zurich) opened the debate with a thought-provoking proposal to move away from an inflexible and strictly hierarchical institutional framework towards a system of federal overlapping competing jurisdictions (FOCJ) which could be formed spontaneously and by mutual agreement depending on need and political demand, and which would transcend the historical territorial boundaries of nation states. The discussant Daniel Finke (University of Aarhus) responded with a discussion of issues of practical implementation, while Giuseppe Fornari (University of Bergamo) discussed issues of political legitimacy and the importance of symbolic politics.

Luisa Giuriato (Sapienza University of Rome) presented a theoretical and empirical discussion of problems associated with the current fiscal governance in the EU. She addressed issues of growth-orientation and of democratic legitimacy, as well as the problem of transforming EU-wide fiscal rules into national law. The discussants Ekkehard Köhler (University of Freiburg) and Laura Castellucci (Tor Vergata University of Rome) addressed both technical issues of the paper, and fundamental issues of democratic governance in a seemingly hierarchical system of rules.

Christoph Schaltegger (University of Lucerne) presented an empirical analysis for Swiss cantons on the distributional effects of policies of fiscal consolidation. He pointed out how the laboratory of Swiss federalism allows to draw conclusions that are valid for the effects of fiscal consolidation in other multi-level polities, such as the EU, and he showed that mostly middle incomes, but not lower incomes are adversely affected by fiscal consolidation. Manuela Mosca (University of Salento) and Giovanni Battista Ramello (University of Eastern Piedmont) discussed the historical background, technical issues of the analysis, and the issue of the transferability of the results.

Clemens Fuest (ZEW Mannheim) made the proposition that a formal insolvency procedure for Eurozone members is necessary as a preventive measure in order to reduce incentives for excessive deficit financing (in particular on the side of the lenders) in the future. He presented a fully developed proposal for such a procedure, which was then discussed with particular regard to the incentive problems associated with it, problems of political implementation and

democratic support by Michele Giuranno (University of Salento) and Daniela Giannetti (University of Bologna).

Stefano Gorini (Tor Vergata University of Rome) sought to show how far the EU has moved away from its roots of a specific European social model, and whether it would be desirable to re-invent such a specific approach. Thomas König (University of Mannheim) discussed this issue through the lens of an empirical, quantitative political scientist, and Enrico Colombatto (University of Turin) pointed out the merits of a classical liberal approach as an alternative to the more social democratic model favored by Gorini.

Hansjörg Blöchliger (OECD Paris) presented results from an OECD research project that aims at a quantitative analysis of federal constitutions and their economic and political effects. He, as well as the discussants Michele Giuranno (University of Salento) and Laura Castellucci (Tor Vergata University of Rome) discussed the method of analysis, and the transferability of results to the particular setting of the European Union, as well as the avenues towards an efficient reform. In particular, an economically efficient multi-level constitution need to be associated with a high degree of internal consistency and sub-central autonomy and responsibility.

Ernesto Longobardi (Aldo Moro University of Bari) criticized the current set of fiscal rules and strongly advocated a reform either towards fiscal rules that provided increased counter-cyclical flexibility for national governments, or a transfer of competencies for economic policy-making to the EU level, in order to allow for efficient macroeconomic adjustments. The discussants Jan Schnellenbach (University of Cottbus) and Giuseppe Fornari (University of Bergamo) criticized this approach both for economic reasons, and for deeper problems associated with lack of democratic support and political legitimacy.

Lars Feld (University of Freiburg) presented a proposal made by an international group of economists dealing with high levels of legacy sovereign debt. The proposal intends to decrease the present vulnerability of the Eurozone, and to increase the efficiency of fiscal rules that slow down the accumulation of new sovereign debt. Both discussants, Enrico Colombatto (University of Turin) and Giovanni Battista Ramello (University of Eastern Piedmont) had several objections in terms of efficiency of incentives with regard to future debt accumulation, as well as incentives to enter such a scheme in the first place.

Giuseppe Eusepi (Sapienza University of Rome) identified in the lack of a truly process-oriented EU constitution a major source of current problems in the EU governance. In particular, he stressed the tendency of European politics to engage in (seemingly) market correction rather than market integration. He argued that even if Europe engaged in constitutionalization now, the concrete outcome would be still uncertain. The presentation was discussed by Daniela Giannetti (University of Bologna) and Thomas König (University of Mannheim).

Charles B. Blankart (Humboldt University of Berlin and University of Lucerne) laid out a parallel currency approach as a chance for a country with both unsustainable public debt and structural economic problems, like Greece, to regain competitiveness without formally exiting the Eurozone. The proposal was debated from a historical and political perspective by Manuela Mosca (University of Salento) and Daniel Finke (University of Aarhus).

In sum, the Colloquium covered a lot of ground, including fiscal, monetary and political institutions. Possible institutional reforms have been discussed that include more modest and immediately practical approaches, as well as bold, far-reaching and highly original ideas. The set of participants, including proponents of economics, social science, political science, philosophy and historical science, led to a very thought-provoking and lively debate on all of the papers presented.

Giuseppe Eusepi and Jan Schnellenbach

June 19, 2015