



A Dynamic Economic and Monetary Union

Research and Innovation Action

Horizon 2020 (Call H2020-EURO-SOCIETY-2014)

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In response to the European debt crisis and associated deep recession, a number of important steps have recently been taken towards redesigning the institutional architecture of EMU, based on the roadmap outlined in the Van Rompuy Report (2012).

But these institutional innovations – and especially the ‘fiscal compact’, the ESM, the SSM and the SRM – have relatively weak theoretical foundations.

In particular, there is a noticeable gap between policy-oriented analyses of the precise EU challenges, and the major developments in dynamic macroeconomic theory of the past three decades.

**In the aftermath of
the Great Recession**

3+2 important pieces in place

1. The Fiscal Compact

- Limiting redistribution with fiscal restraint?

2. The European Stability Mechanism (ESM)

- As a risk sharing mechanism with conditionality?

3. The European Banking Union (EBU)

- To break the link private–sovereign debt?

+ The European Central Bank (ECB)

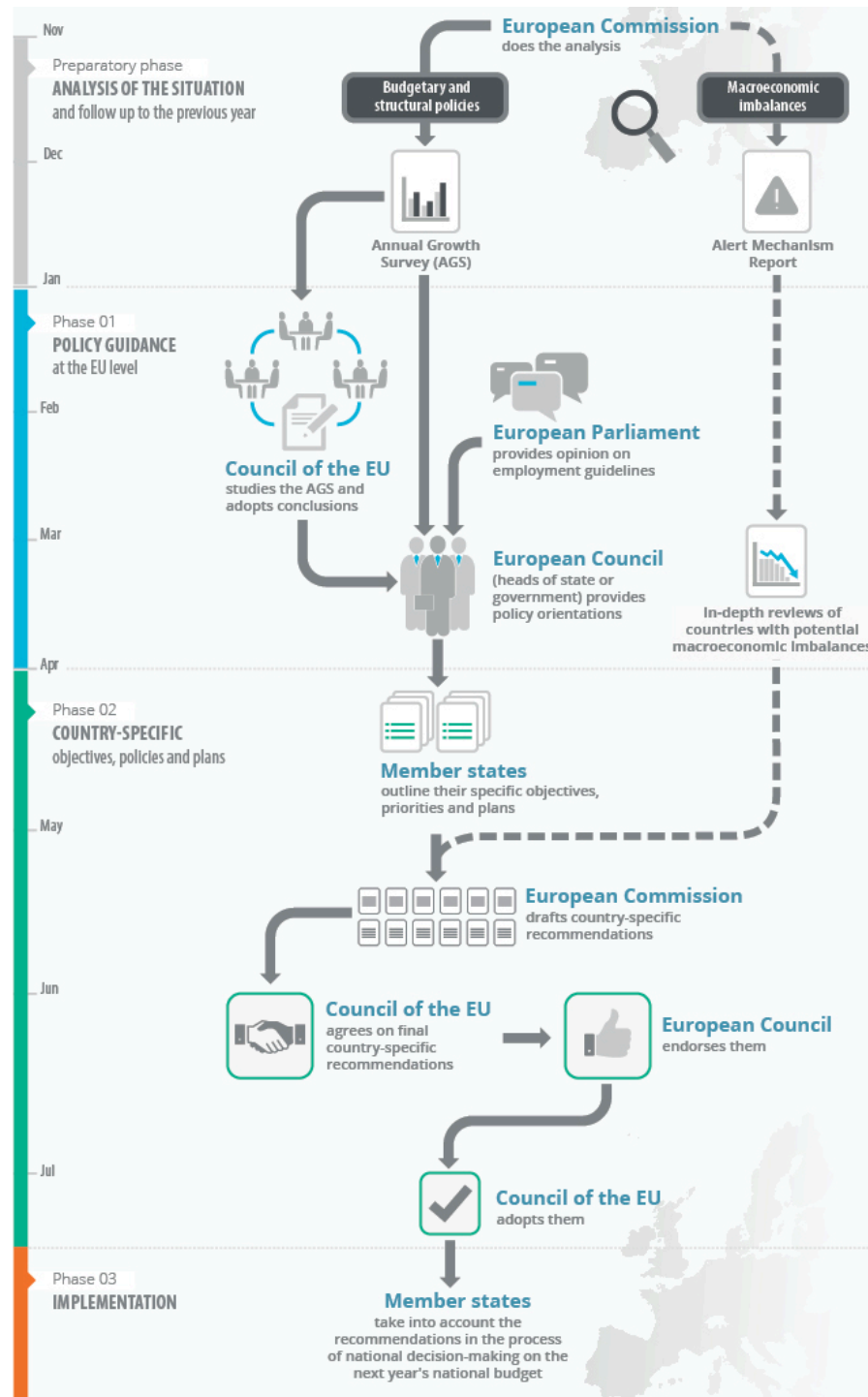
- Providing ‘firing power’ to ESM & control to EBU?

+ The European Semester

- Coordinating structural reforms, fiscal policies and preventing macroeconomic imbalances?

The European Semester

Who does what & when?



Each of these pieces raises questions

1. Fiscal Compact

- For most the ‘fiscal compact’ still remains ‘an imposed objective,’ is then credible? Is it enough? Is a stimulus package the right complement?

2. European Stability Mechanism (ESM)

- It is a crisis resolution mechanism, should not be a risk-sharing mechanism? How?

3. European Banking Union (EBU)

- SRM: where is the independence to break the lines and act efficiently?
“A Single Resolution Board, consisting of representatives from the ECB, the European Commission and the relevant national authorities”
- Is the Single Rulebook the right book?

+ European Central Bank (ECB)

- SSM: too much responsibility for the ECB? What is the rationale and effect of the new QE policies?

+ The European Semester

- Which policies are coordinated? How are they implemented?

Together they raise other questions

How much fiscal capacity for the EMU?

How should we deal with the lasting
“unpleasant arithmetic”?

Will we ever learn to “draw the lines”?

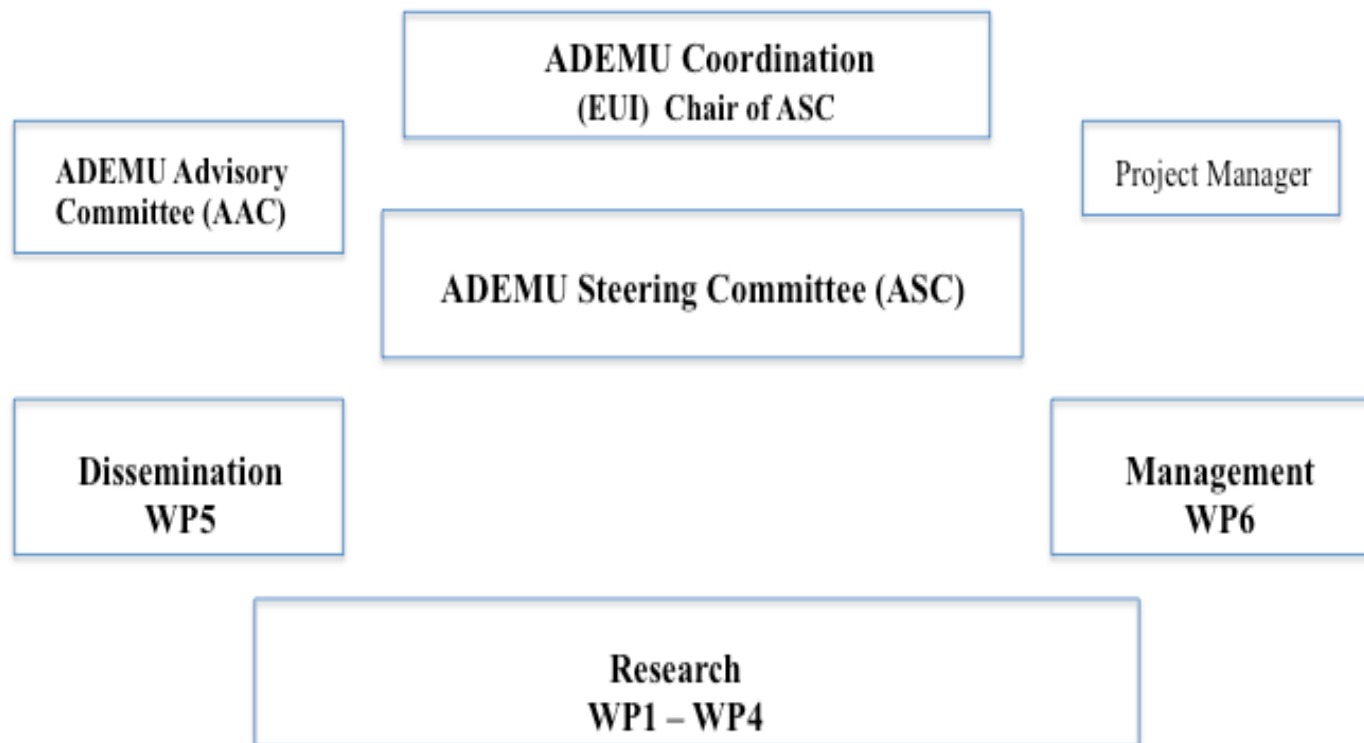
Are we passing risk up the ladder?

The consortium

List of Participants:

Participant No	Participant Organisation name	Country
1 (Coordinator)	European University Institute (EUI)	Italy
2	University of Cambridge (CAM)	UK
3	University of Bonn, (BGSE)	Germany
4	Toulouse School of Economics (TSE)	France
5	University College London (UCL)	UK
6	Catholic University of Portugal (CUP)	Portugal
7	Barcelona Graduate School of Economics (BcnGSE)	Spain
8	Charles University in Prague (CERGE)	Czech Republic

The structure



The research Work Packages

1. Long-term sustainability of a monetary and fiscal union
2. Stabilisation policy in currency unions
3. Macroeconomic and financial imbalances and spillovers
4. Policy Implementation

The objectives of WP #1

To conduct a rigorous investigation of risks to the long-run sustainability of EMU, and to develop detailed institutional proposals aimed at mitigating these risks.

- determinants of sovereign debt crises; risk indicators; new strategies for reducing this risk.
- credible rules and strategies for sustainable public debt management for an heterogeneous union
- optimal fiscal risk-sharing mechanisms, subject to participation/sovereign constraints.
- ...

The objectives of WP #2

To assess the short-run stabilising potential of alternative approaches to conducting fiscal policy in a currency union, so as to improve resilience to macroeconomic shocks.

- macroeconomic policy coordination: what & how?
- fiscal multipliers: theory and empirics.
- Social-insurance and labour market policies as automatic risk-sharing and stabilising – or destabilising – policies.

The objectives of WP #3

New understanding of the fiscal policy implications of cross-border economic interdependence within the EU, particularly in the form of spillovers and imbalances

- new evidence on the cross-border spillover effects of fiscal and financial shocks in the euro area, and explore their implications for fiscal policies in EU countries.
- to assess the role of macroeconomic and financial imbalances in the recent crisis and recession
- to reassess the existing institutional mechanisms for controlling imbalances and possible new policies and mechanisms

The objectives of WP #4

To assess the practical aspects of institutional and policy implementation, with a particular focus on the legal, political and behavioural constraints that the current EMU fiscal framework and, in particular, of the ADEMU proposals.

- To identify the legal and constitutional challenges of the recent institutional innovations (Fiscal Compact, ESM, etc.) and, in particular, of the ADEMU proposals.
- To explore the political-economy of the current EMU & sovereign states framework and of the ADEMU proposals
- To examine experimentally the viability of specific theoretical models and policy proposals considered under the ADEMU project.

The people

	EUI	Cambridge	Bonn	TSE	UCL	Catolica	BcnGSE	CERGE
WP1	Ábrahám, Dominik, Ferriere, Gottardi, Marimon, Pappa, Rojas	Brendon, Corsetti , Teulings,	Von Hagen	Hellwig, Ulbricht	Bassetto, P. Kehoe	Adão, Correia, Teles, Reis	Caballe, Debortoli, Fornaro	
WP2	Canova, Dolado, Pappa	Low, Rendhal	Bayer, Hintermaier, Müller, Schularick	Dupaigne, Kankanamge, Fève, Mouha, Portier	P. Kehoe, Ravn, Sterk	Adão, Correia, Teles , Reis		
WP3	Hansen. Marimon, Portes				Cui		Gambetti, Jungherr, Rodriguez	Bohacek , Kapicka
WP4	Beukers, Casari, De Witte, Fasone, Kilpatrick, Levine , Marimon, Mattozzi, Monti	Brendon/ Corsetti	Hintermaier	Portier	Ravn	Teles	Gambetti/ Rodriguez	Bohacek
WP5	Marimon	Brendon/ Corsetti	Hintermaier	Portier	Ravn	Teles	Gambetti/ Kirchner	Bohacek
WP6	Marimon	Brendon/ Corsetti	Hintermaier	ADEMU Portier	Ravn	Teles	Gambetti / Rodriguez	18 Bohacek

The ADEMU Advisory Committee

- [Thomas F. Cooley](#) (NYU – Stern) [Chair]
- [Sir Charles Bean](#) (LSE)
- [José Manuel Campa](#) (IESE & Grupo Santander)
- [Jean-Pierre Danthine](#) (Swiss National Bank)
- [Lars Peter Feld](#) (Walter Eucken Institut & University of Freiburg)
- [Lucrezia Reichlin](#) (London Business School)
- [Thomas J. Sargent](#) (New York University)
- [René Smits](#) (University of Amsterdam)

The work

(to be delivered and milestoned)

- ADEMU webpage for coordination and dissemination
- Conferences, workshops and policy panels
(Take-off: Cambridge, October 8-9, 2015; final: *The State of the Union*, Florence, May 2018)
- Working Papers and Policy Briefs
(PhD Thesis and published papers to be)
- New indicators (Public Balance Risks, Macroeconomic Imbalances)
- New tools, software & data (calibration and experimental work)
- Reports (*“Risk Assessment Report on Public Sector Balance Sheets,” “Legal constraints on EMU policies” “The State of the Van Rompuy Roadmap in 2018”*)
- ADEMU Lectures and Courses

The success?

- Genuine contributions to Economics et al. SSH
- Better understanding of the euro recession and of the EU/EZ framework and its challenges
- Possibly, showing how the ADEMU issues are at -- and expand – the social sciences research frontier
- Publications and PhDs
- Policy and institutional proposals
- Dissemination and education
- Responsible & effective use of the EU taxpayers' €€€

ADEMU

