

COMPLETING A GENUINE ECONOMIC AND MONETARY UNION

Iain Begg

European Institute

London School of Economics and Political Science

@IainBeggLSE

WHY THE REDUNDANT TITLE?

- 2012 Four Presidents' report: '*genuine*'
 - Yes, that was over a decade ago...
- 2015 Five Presidents' report: '*completing*'
 - Same four dimensions:
 - Common financial framework: more on banking union
 - A new budgetary framework: fiscal union?
 - Integrated economic policy framework: the semester?
 - Democratic legitimacy & accountability: political?
- All imply significant deepening
 - But distinct watering down in 2015 proposal

HOW COMPLETE IS EMU?

DIMENSION	STATE OF PLAY	BY 2030?
Membership	20 out of 27	22? 23?
Role of ECB	Has extended to more than assuring price stability	A 'normal' central bank?
Banking union	SSM & SRM, but common deposit insurance stalled	Maybe a move to provide reinsurance & backstop
Fiscal union	ESM, NGEU (temporary) resistance to new capacity	Permanent EU borrowing to fund policies: moderate
Internationalisation of €	Reached early plateau	Ambivalence about advantages: little change?
Other governance	Coordination mechanisms with dubious impact	Customised rules and greater national ownership
Legitimation and accountability	Hard to detect much progress...	...or to see much changing soon

“EMU has reached a point at which a fundamental decision must be taken: should EMU be deepened/expanded into a fully-fledged fiscal and finally political union? If the answer is yes a fully transparent process of a change of the Treaty must be started. I am convinced it would be dangerous to hide political ambitions via democratically not legitimized actions of de facto transfer of national fiscal sovereignty to the European level”

Otmar Issing in his response to the survey
conducted for the book - 2020

IMPLEMENTATION AND COMPLIANCE

- The Achilles' heel of EU governance
 - Political over-rides: 2002/3 SGP – France and Germany
 - >> Signal to others: you do not need to make much effort
 - Again: summer 2016 – Spain and Portugal €0 fines
- Mixed outcomes on fiscal variables pre-covid
 - Gradual reduction in headline deficits, but not debts
 - Explained by rules...or simply cyclical movements?
 - Hard to identify consequences of draft budget scrutiny
- MIP having little obvious impact

FISCAL CAPACITY TENSIONS

LEADS TO
CROSS-BORDER
TRANSFERS

NEED NOW FOR
SUPPORTIVE
INVESTMENT

NEW EU
FISCAL
CAPACITY?

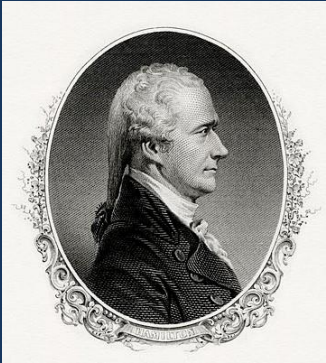
MORAL HAZARD
WORRIES OF NET
CONTRIBUTORS

“GREEN” AND “DIGITAL” AS KEY EU PUBLIC INVESTMENT PRIORITIES

FISCAL GOVERNANCE CHALLENGES

- Stark choice now has to be faced
 - Renewed top-down framework, rules etc
 - Including sanctions, despite their dubious record
 - Or fostering national ownership
 - Mitigating risks of spillover: trust or apprehension?
- What roles for EU level, notably Commission?
 - Certainly advisory, cognitive
 - But is a quasi-judicial function helpful?
- A beefed-up EFC – solution or false prospectus?

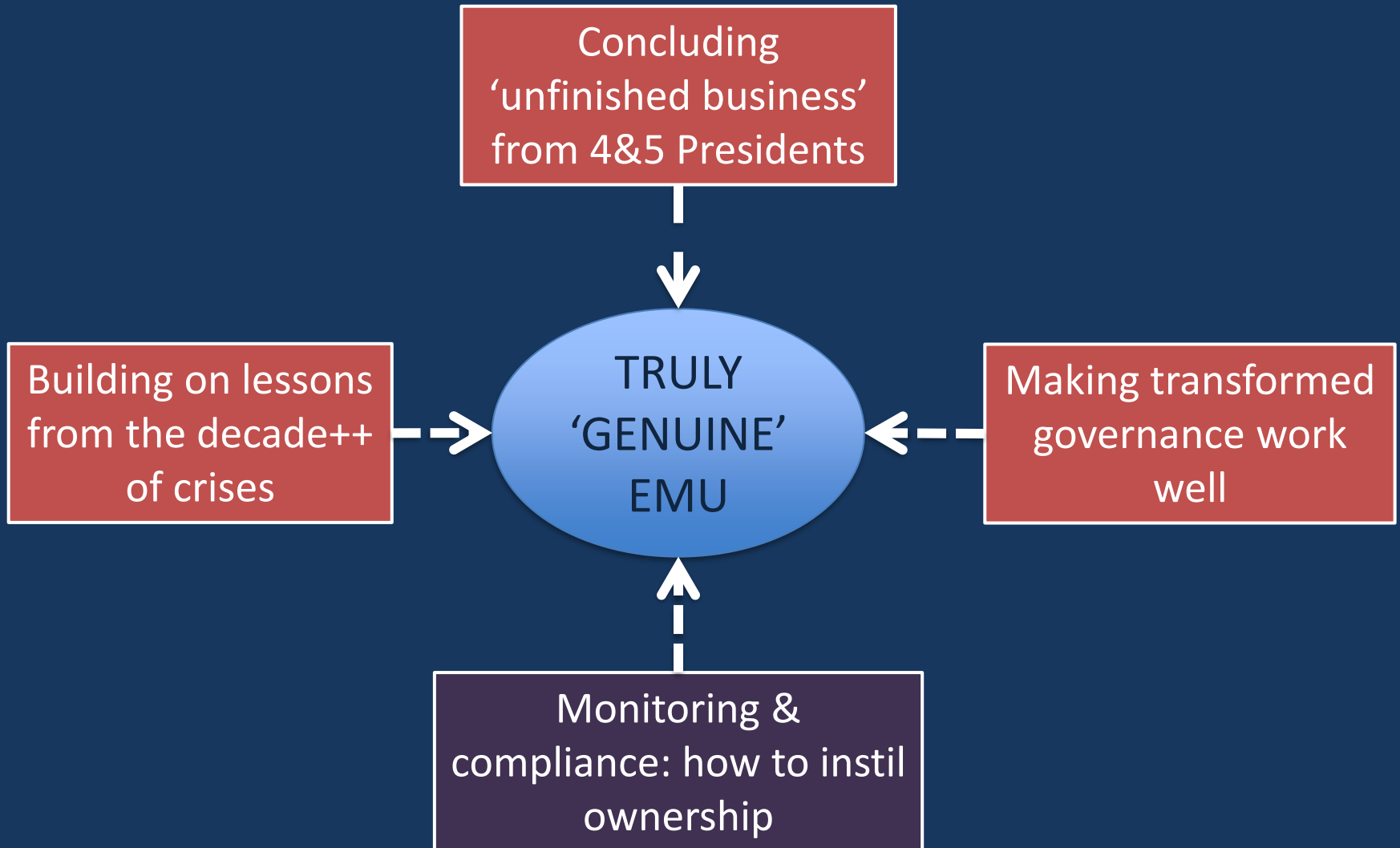
TRICKY POLITICS OF NGEU



A Hamiltonian
moment?

- No, but certainly a ‘Rubicon crossed’
 - Unlikely to be only temporary
- The difficult debates on conditionality
- Sizeable cross border transfers
- Tensions around new EU level taxes
 - Once again: legitimation issues
- A successor programme for ...?
 - Ukraine
 - Climate transition
 - A sovereignty Fund as proposed by UvdL

ARRIVING AT A COMPLETE EMU



“The biggest reason for optimism about [the euro’s] survival must be the consequences of the alternative. Breaking up would be hugely traumatic, financially and economically. It would also threaten the survival of the EU itself”

Martin Wolf, *Financial Times*, commenting on 20 years of the euro, 2019

IS TIME RIPE FOR MAJOR ADVANCES?

- Exit from succession of crises
 - Need to end general escape clause
- The benign economy paradox
 - Roof should be fixed when the sun is shining
 - Instead the temptation is to hold a party
- Yet responses rushed in times of crisis
- Instinct to refine and recalibrate, not be radical
 - The semester, for example
 - The fiscal rules – at least until last November
 - The enduring attachment to 3% and 60%

CONCLUDING COMMENTS - 1

- EMU remains incomplete
 - Not just in membership, but many governance features
- Monetary policy too often asked to do too much
- Rules: a nuanced verdict
 - Can help; least effective in ‘abnormal’ times: e.g. ZLB
 - Compliance and appropriateness can be in conflict
 - The risk that process overshadows content
- Too little attention to political economy aspects
 - France & Germany still disagree: plus ça change...

CONCLUDING COMMENTS - 2

- Proposed new fiscal governance framework
 - Need to revisit underlying economics: what are the aims?
 - Rethinking institutional context
 - Important to integrate role of fiscal councils
- Differences on priorities and pace of reform
 - Despite broad agreement on some directions
 - Banking union; capital markets union; role of ECB
- Further thinking needed on fiscal framework
 - Too much weight has been given to fiscal discipline
 - But not enough to common fiscal capacity or debt
- Political will – indeed courage – now essential

“Useless laws weaken the
necessary laws”

Montesquieu, *The Spirit of the Laws*