COMMENTARY

Thinking ahead for Europe

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Comprehensive EMU reform or tinkering at the margins?

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The European Commission has laid out a new roadmap for reforming EMU. Regrettably, most of the proposed changes, being formalistic and cosmetic, are unlikely to have much impact.

On December 5th, the European Commission published a package of documents under the heading: "Commission sets out Roadmap for deepening Europe's Economic and Monetary Union". This package has four elements: two concrete proposals and two Communications.

The latter two elements constitute the most 'fluffy' part of the entire package because the Communications are purely descriptive of what could be done, without any concrete indication that the Commission would really like this to happen (the text contains many instances of 'could', but few of 'should').

For example, one Communication is about "the possible functions of a European Minister of Economy and Finance". But no new functions are actually outlined. The essence of this idea is to give an existing position (Vice President of the Commission responsible for the economy) a new title (European Minister) without any new competences. The Communication adds that that in future this Vice President could be elected by national Finance Ministers to take over the chair of the ECOFIN Council, without spelling out what would be achieved in concrete terms by this 'double hatting'.

Another Communication is about a potential new budgetary instrument, which might have many different purposes. But it would presumably be limited to a couple of hundred million euros (not billions) and would thus be irrelevant for a euro area economy of €10 thousand billion.

The two proposals are more concrete, but of limited relevance.

One proposal is to integrate, without any change, the substance of the Fiscal Compact (officially named Treaty on Stability, Coordination and Governance) into the EU Treaty. The Fiscal Compact was concluded at the height of the crisis as a political quid pro quo for German support

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for the permanent rescue mechanism, the ESM (European Stability Mechanism). Its main innovation is a numerical rule that calls upon countries to reduce their public debt levels towards 60% of GDP. The Commission does not spell out what substantive progress would be achieved by this proposal.

This leads to the one proposal which at first sight might be the most important: "to establish a European Monetary Fund (EMF)". This idea was proposed seven years ago (see Gros & Mayer, 2010), and in the meantime the ESM was created, which fulfils most of the functions of an EMF (see Gros & Mayer, 2017). The Commission's proposal thus comes a bit late and, upon closer inspection, appears to be essentially formalistic. The Commission proposes simply to incorporate the existing ESM into the Treaty, again without any substantive changes, except one: decisions to grant financial assistance would be taken by a majority of 85% (instead of by unanimity, as at present). This means that only the three largest member states (France, Germany and Italy) would retain a de facto veto power. This might be useful, but the importance of this step is limited. The requirement to have the consent of all member states (or at least their acquiescence) has so far not held up any programme, even when one or two smaller member states experienced great difficulty in obtaining their parliament's approval.

Another, more consequential step proposed by the Commission would be, in case of a major banking crisis, to empower the ESM/EMF to provide loans (a so-called backstop) to the Single Resolution Fund. This might become important if a number of large banks experience difficulties. But this a decision that the member states are already equipped to take today via their participation in the ESM, without any need to incorporate the ESM into the Treaty.

The proclaimed overall aim of the Commission's package was "to enhance the unity, efficiency and democratic accountability of Europe's Economic and Monetary Union by 2025". It is unlikely that the mostly formal and cosmetic changes proposed would have a significant impact on any of these three aims. It is surprising that the Commission had nothing new to propose on the matter of completing the Banking Union – which is the one area where real progress seems possible (see Micossi, 2017).

All in all, the Commission might have more appropriately entitled its package: "A modest proposal to enhance the European Stability Mechanism".

References

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