Editorial

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Europe's Economic and Monetary Union (EMU) is still an unfinished business, even if we take the various post-crisis reforms into account. While many of these repair measures have certainly contributed to cooling down the crisis, they basically shifted the crisis features from external to internal imbalances, i.e. from current account divergence to unemployment. Moreover, flexibility-enhancing reforms have not yet delivered prosperity and convergence – two major promises of EMU.

The so-called *Five-Presidents' report*[1] is a reasonable roadmap to EMU completion built on a broad consensus. It proposes to gradually complement today's rule-based framework with further sovereignty-sharing and common institutions in four areas: *Economic Union, Financial Union, Fiscal Union* and *Political Union*. The report is realistic enough to distinguish between two stages: In stage one, up to 2017, reforms should be pursued within the existing legal framework and should comprise the completion of Banking Union, the start of the Capital Markets Union, and the establishment of national Competitiveness Authorities and a European Fiscal Board, etc. In the second stage, from mid-2017 (i.e. after the British referendum and elections in Germany and France) until 2025, more far-reaching reforms should involve a Treaty change. At the end of this process, a democratically accountable euro area treasury should be in place.

To spur academic debate on this roadmap, the *Oesterreichische Nationalbank (OeNB)* in cooperation with the *Euro50 Group* organized a workshop on September 10 and 11, 2015, which looked at creative suggestions for reforms through the lens of economic theory.[2]

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[1] Juncker, J.-C., D. Tusk, J. Dijsselbloem, M. Draghi and M. Schulz. 2015. Completing Europe's Economic and Monetary Union. European Commission. Brussels.

[2] For further details, see the workshop program and presentations at www.oenb.at/en/Monetary-Policy/Research/workshops/toward-a-genuine-economic-and-monetary-union.html.

- One workshop contribution proposed a common unemployment insurance (or re-insurance) system that compensates for dismantled national automatic stabilizers particularly in countries that were under financial stress. In line with the Five Presidents' report, such a system should not lead to permanent or unidirectional financial transfers but rather help bridge asymmetric shocks or unsynchronized cycles among Member States. Any insurance can only work if every contributor sees a chance to benefit (including greater stability of the whole system).
- Another idea was to introduce a productivity-oriented wage-setting rule, very much inspired by the Austrian tradition of social partnership. OeNB economists proposed a "trinity rule" that takes productivity increases, the ECB inflation target and external imbalances duly into account.
- The Capital Markets Union was defended as a means to make the euro area less dependent on banks. Nevertheless, there were warnings against repeating the mistakes of EMU creation, when too much emphasis had been placed on (financial) market-based risk-sharing, which laid the foundations of the crisis via debt accumulation and asset price bubbles. We should definitely think harder about ways to ensure that cross-border investment flows contribute to smart, inclusive and sustainable growth.
- The workshop also discussed controversial issues such as shared debt management. Joint issuance of sovereign bonds would have merits in stabilizing government debt markets, supporting monetary policy transmission and fostering financial stability and integration. However, it might require a Treaty change and the consideration of potential moral hazard. Meanwhile, synthetic eurobonds could be a feasible alternative when it comes to dealing with the debt overhang and stabilizing debt markets. These securities would be designed as a basket of national bonds where each country only guarantees its own share in the basket.
- Another proposal was to introduce a golden rule for public investment that exempts important hard and soft investment (in infrastructure, technology, skills, etc.) from fiscal rules (Stability and Growth Pact). Investment is still extremely low in the euro area, thus putting a break on growth. The Juncker Investment Plan is a move in the right direction, but its implementation possibly not (fast) enough.
- The Five Presidents' report did not explicitly refer to a budget for the euro area, but it is difficult to imagine a treasury that does not dispose of its own fiscal capacity. There would be the need for financing European public goods and supporting structural reform efforts in individual Member States that benefit the euro area as a whole. Financing could be ensured through the treasury's own resources (European taxes), which would grant some degree of independence, limit harmful tax competition and target cross-border externalities (e.g. carbon tax).

While the desirability and feasibility of individual proposals were debated, workshop participants seemed to agree that the smooth functioning of a full-fledged currency union requires a fiscal and economic policy framework that combines both risk reduction and risk-sharing; in other words: discipline and solidarity.

After years of recession, the economic conditions for adjustment and institution building in the euro area have improved with the policy mix becoming more supportive. Now, however, the main risk for the euro lies in the social and political realms. The longer it takes for reforms to pay-off for ordinary citizens, the more difficult it is to convince them that an "ever closer union" is in their very own interest. Progress toward a genuine EMU will take time, but time is a scarce resource. Let us use it efficiently.