

Pitfalls in the concept of a Genuine Economic and Monetary Union¹

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On 5 December 2012, the President of the European Council in close cooperation with the Presidents of the European Commission, the Eurogroup and the European Central Bank published a report – in answer to an “invitation” by the European Council – entitled “Towards a Genuine Economic and Monetary Union”. Three years later on 22 June 2015, meanwhile five Presidents – the President of the European Parliament had been included – presented a follow-up report “Completing Europe’s Economic and Monetary Union”. “The Nature of a Deep, Genuine and Fair Economic and Monetary Union” is the title of the first chapter of this report.

“Europe’s Economic and Monetary Union (EMU) today is like a house that was built over decades but only partially finished. When the storm hit, its walls and roof had to be stabilized quickly. It is now high time to reinforce its foundations and turn it into what EMU was meant to be: a place of prosperity based on balanced economic growth and price stability, a competitive social market economy, aiming at full employment and social progress. To achieve this, we will need to take further steps to complete EMU.”

Under the headline Financial Union the report covers completing of the Banking Union and launching the Capital Markets Union. A Single Supervisory Mechanism (SSM) is now established. Proposals for the other pillars of the banking union – like a Single Resolution Mechanism (SRM) and a Deposit Guarantee Schemes Directive – have already raised an intense controversy.

The reference for identifying the present institutional arrangement in Europe or rather EMU as an “unfinished house” is a fully-fledged political union. The Report insists on parallel developments in the field of fiscal and political integration. It does not plead for a fully-fledged fiscal and political union, “only” for steps in this direction. These steps include inter alia a macroeconomic stabilisation fund, and a euro area treasury implying an increasing need for collective decisions on fiscal issues.

¹ A revised and extended text will be published in *International Finance*.

The authors make clear that this partial transfer of national fiscal sovereignty needs arrangements for democratic accountability, legitimacy and institutional strengthening. A number of institutional arrangements are presented, in particular a closer cooperation between the European Parliament and national Parliaments including the Commission. All these are moves into the direction of a political union. However, the combination of limited transfer of fiscal sovereignty and limited democratic legitimacy is a dangerous path to follow. Limited democratic legitimacy will prevail as long as the transfer of fiscal sovereignty is not based on changes in national constitutions.