Othmar Karas
MEP
European Parliament

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Building a Stronger Economic and Monetary Union to the Benefit of all European Citizens

A quarter of a century ago, the Treaty of Maastricht became effective and paved the way for our single currency. The euro was born as an accounting currency in 1999 and euro banknotes and coins began to circulate in 2002. Today, the euro is, after the U.S. dollar, the second most important currency in the world and the common means of payment for more than 340 million Europeans in 19 Member States. Sixty countries and territories, representing another 175 million people, have pegged their own currencies directly or indirectly to the euro. After Brexit, an estimated 85 percent of the total GDP of the EU will be generated by the economies of euro area countries[1].

The euro – a success story

Looking back, the euro is on many levels a success story. It has brought immense tangible benefits for people, firms and the euro area countries. Firstly, price stability, which has ensured that our living standards are no longer at the mercy of the high inflation and volatile exchange rates of the 1970s and 1980s. Secondly, the abolition of expensive charges for citizens travelling from one euro country to another or for transferring and withdrawing money in another euro country than at home. Thirdly, cheaper credit for households and businesses and on average enormous savings of time and money for firms, given there are no more exchange-rate risks nor transaction costs for cross-border operations[2]. McKinsey has calculated that in 2010 the euro boosted the wealth in the euro area by no less than EUR 332 billion. With 7.8 percent of its GDP corresponding to EUR 22 billion, the positive effect of the euro for Austria was greater than for any other euro area country in that year[3]. Regrettably, the euro is not always perceived as such a success, which is partly due to the turbulences caused by the global financial and economic crisis that started in the United States in 2007 to 2008.

This recent crisis has undeniably revealed several weaknesses in the system underpinning the euro. In response, the EU adopted more than 40 pieces of legislation to stabilize markets, restore trust and increase the resilience of the financial sector as a whole. These measures include more stringent capital and liquidity requirements for all of the currently 6,500 banks in the EU, the introduction of the banker's bonus cap, the establishment of the European supervisory authorities (ESAs) as well as the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRB) and strengthened deposit insurance. As so often in the history of European integration, the biggest steps forward were made under duress, at the height of or immediately after a crisis. Also due to the constraints of time, emergency interim measures – such as the establishment of the euro rescue system, the European Stability Mechanism (ESM), or the agreement on the fiscal compact – have been established only on an intergovernmental basis. To increase democratic accountability and control, they still have to be fully incorporated into EU Community Law. As long ago as in 1950, the French Foreign Minister Robert Schuman pointed

[1] *European Commission. 2017.*
[2] *European Commission. 2017.*
[3] *McKinsey. 2010.*

it out well: *"Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity."*

The adopted measures have contributed to making the euro stronger than before 2008. Today, unemployment in the EU has fallen to its lowest level in eight years and EU growth is set to remain robust with 2.1 percent in 2018 and with 2 percent in 2019[4]. With Greece successfully concluding the financial assistance programme on 20 August 2018, the last Member State has left the euro's rescue fund[5]. Clearly, even the most difficult tasks can be managed together in Europe, if only the political will to do so is present.

However, our Economic and Monetary Union (EMU) is not yet completed. We must continue to draw the right lessons from the crisis and address the structural and institutional weaknesses that remain. In fact, there should be no complacency about the necessity to strengthen the euro's architecture to ensure financial stability, growth and jobs in Austria and Europe. As Vice-President Dombrovskis and Commissioner Moscovici jointly stated, "*the euro area does not need only firefighters – it also needs builders and long-term architects*"[6]. The challenges of globalisation, digitalisation and Brexit are exacerbated by the daunting fact that the euro is still the only currency in the world which is not yet backed by a common budget, fiscal, economic and tax policy. Yet the ideas for the further development of the EMU that are currently being discussed – including the proposals and ideas put forward by President Juncker, President Macron and Chancellor Merkel –, are in fact nothing new. They reflect imperatives, which have been acknowledged for many decades to make up an effective economic and monetary policy.

The far-back reaching roots

The underpinnings of the EMU can be traced back at least 60 years when Germany, France, Italy, Belgium, Luxembourg and the Netherlands agreed to implement joint economic policies in 1957. The European Economic Community (EEC) came to life in that year with the signing of the Rome Treaties. Just a little more than a decade later – when Member States found themselves facing ever more frequent monetary turbulences – they instructed the Luxembourgian Prime Minister Pierre Werner to draw up a three-stage plan to establish an Economic and Monetary Union. In his 1970 report, Werner states that: "*the economic and monetary union thus appears as a leaven for the development of political union, which in the long run it cannot do without*". He argued further that: "*the economic and monetary union is an objective realizable in the course of the present decade, provided the political will of the member states to realize this objective (...) is present*"[7].

As we know, it took more than two decades until the aforementioned Treaty of Maastricht became effective and laid the legal foundation for our common currency in 1993. The day after the negotiations on this Treaty were concluded, the then German Chancellor, Helmut Kohl, said: "*The way to European unity is irreversible. The member states of the European Community are now bound in such a way that it is impossible for them to split apart and fall back into the concept of the nation-state, with all of its consequences.*" He went on: "*The outcome of the Maastricht negotiations has established the path to European economic and monetary union, clearly and once and for all.*"[8]

Already at the time of birth of the Maastricht Treaty, Helmut Kohl was convinced that a common currency would inevitably lead to the introduction of a common budgetary, fiscal and economic policy. The euro was never a project for few, but always a project for all Member States. The euro is a political project, designed to pave the way for a political union. Except for Denmark and the United Kingdom, which have an opt-out clause, all EU Member States have committed themselves to introduce the euro once they have met the convergence criteria. All EU citizens – irrespective from which Member State they come from, and irrespective of whether that Member State is in the euro area or not – are affected when it comes to the further development of our EMU.

A complete EMU is a necessary development step for our Union

The euro is much more than just a currency. A complete EMU is not an end in itself, but a vital step in the development process of our Union. The Five Presidents' Report[9], published in June 2015, and the recent Reflection Paper by the European Commission[10], have laid out the timetable for deepening the EMU until 2025. The large majority of all the measures necessary to complete the picture are either lying on the table as legislative proposals by the European Commission or are already well advanced in the EU legislative process.

For example, we must complete the banking union as soon as possible. Ten risk-reducing measures for the EU banking sector are close to being adopted. They include the reduction of nonperforming loans, the revision of the macroprudential framework, the reduction of options and national discretions in the application of capital and liquidity requirements, the improvement of the bail-in instrument and the introduction of a binding leverage ratio and net stable funding ratio. There is, on the risk-sharing side, the urgent necessity to complete the third pillar of the banking union with the establishment of a common European Deposit Insurance Scheme (EDIS) as well as the stronger application of the principle of proportionality with the reduction of unnecessary bureaucracy and regulatory burdens for small and non-complex institutions.

In addition, there are over 30 initiatives of the capital markets union (CMU) to strengthen capital markets and investment in the EU. At this stage, over two thirds of them have been implemented. Although we want to create a CMU, this does not mean we have a capital market in Europe. With approximately 70 percent, the biggest part of our real economy is bank-financed and the CMU must therefore be a financing union for our real economy. Measures include, for example, the European investment engine EFSI (European Fund for Strategic Investment) – which to date has mobilised EUR 335 billion of investment in the EU (EUR 3.9 billion in Austria), supported 750.000 jobs and 700.000 small and medium-sized companies and will continue as part of the recent InvestEU initiative[11]. There

[4] *European Commission.2018a.*

[5] *European Stability Mechanism. 2018. Press Release.*

[6] *Dombrovskis, V. and P. Moscovici. 2018.*

[7] *Werner, P. 1970.*

[8] *Kohl, H. 1991.*

[9] *Five President's Report. 2015.*

[10] *European Commission. 2017a.*

[11] *European Commission. 2018b. Press Release.*

are also new rules for simple and transparent securitisations, the reform of the ESAs, the birth to a private European pension product (PEPP) or the covered bonds, fintech or sustainable finance initiatives.

Besides the strengthening of the financial union, we must continue our work to establish an economic and fiscal union while ensuring democratic accountability, effective governance and convergence. The euro's rescue fund, the European Stability Mechanism (ESM), has to progressively graduate into a fully-fledged European monetary fund firmly anchored in EU community law. We need a budget for the euro that acts as macroeconomic stabilization function, supports structural reforms and gives assistance to those countries which are not yet part of the euro area. Furthermore, we must strengthen the coordination of our economic policy and move from unanimity to qualified majority voting in certain areas such as in tax matters – since the unanimity voting limits our ability to act. Europe has to be able to take action quicker and more decisively.

The need for joint action and Austria's key role

Until the 2019 European elections, there is still time to achieve considerable progress to strengthen the EMU to the advantage of all European citizens. Since decisive negotiations will take place in the second half of 2018, the Austrian EU Council Presidency has the key responsibility to successfully adopt – together with the European Parliament – as many of the aforementioned initiatives as possible. As the Five Presidents' Report states: "*A complete EMU is not an end in itself. It is a means to create a better and fairer life for all citizens, to prepare the Union for future global challenges and to enable each of its members to prosper*." We must now summon the political will, courage and determination needed to honour that pledge. With favourable economic conditions, the window of opportunity is here but it will not stay open forever. Let us now take advantage of the wind in our sails and address these our common challenges together to the benefit or all European citizens.

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