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Completing European Economic and Monetary Union: next steps

"Completing Europe's Economic and Monetary Union" is the title of a significant report authored by the five Presidents of the European Union (Commission, Council, Eurogroup, ECB and Parliament) published in 2015[1]. But what exactly makes European Economic and Monetary Union (EMU) incomplete? Some might joke that EMU lacks a 6th President. Indeed, the number of institutions responsible for economic policy already indicates that EMU might have a governance issue. To put it simply: What makes EMU unique is that it does not comprise just a single state. And since there is no political will to create the United States of Europe, the euro area must mimic the most essential functions of a state.

This is why the proposal of the five Presidents rests on four pillars: first, an economic union that promotes convergence, prosperity and social cohesion; second, a financial union that integrates banking and capital markets regulation; third, a fiscal union that guarantees sound public budgets and sufficient provision of public goods; and fourth, a political union that strengthens democratic accountability, legitimacy and institution building. Undoubtedly, "complete" does not necessarily mean perfect – even the dollar area is far from perfect. Nevertheless, the tone of the European Commission has become a bit more pragmatic as it now talks about "deepening EMU" rather than "completing EMU."

Since the crisis, a couple of measures have been taken to deepen EMU. As a case in point, the European Semester was established to better coordinate economic policies of euro area Member States. The greatest progress has probably been made with respect to the banking union, although the important element of a cross-border deposit insurance scheme is still under negotiation. Moreover, the process of creating a capital markets union has already been started, but its completion is likely to take decades. The strengthened Stability and Growth Pact has contributed to a decline in public debt in almost all Member States, while the newly created European Fiscal Board helps not to lose track of the optimal fiscal stance of the euro area as a whole.

Additionally, the European Commission suggested further innovations, such as Sovereign Bond-Backed Securities (SBBS), i.e. privately placed securities without joint liability. Furthermore, the Commission proposed two new instruments within the new Multiannual Financial Framework 2021–2027: a new Reform Support Programme with an overall budget of EUR 25 billion and a European Investment Stabilisation Function in the form of subsidized back-to-back loans of up to EUR 30 billion. Moreover, the Meseberg Declaration[2] of France and Germany proposed the establishment of a euro area budget to promote competitiveness, convergence and stabilization in the euro area, including investment in innovation and human capital. This budget line would be based on an intergovernmental agreement within the EU framework; its size yet needs to be specified. Putting aside any doubts about EU-wide agreement on these measures, the following question remains: Will they indeed be the game

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

[2] *German Federal Government. 2018. Meseberg Declaration: Renewing Europe's promises of security and prosperity. June 19.*

changer wished for or merely "baby steps on eurozone reform" as financial observers called it?[3]

In December 2018, a Franco-German group made up of fourteen well-known economists[4], including *Isabel Schnabel*, our first contributor, proposed a comprehensive reform package calling for the following: first, introducing sovereign concentration charges for banks, common deposit insurance and strengthened mechanisms to bail in creditors of failing banks; second, replacing the current system of fiscal rules with a simple expenditure rule guided by a long-term debt reduction target; third, establishing the economic, legal and institutional underpinnings for orderly sovereign debt restructuring of insolvent countries; fourth, setting up a euro area fund that helps participating Member States absorb large economic disruptions; fifth, creating a synthetic euro area safe asset as an alternative to national sovereign bonds; and sixth, designing a new euro area institutional architecture, with institutional surveillance being separated from political decision-making by creating an independent fiscal watchdog within the European Commission.

Our second contributor, *Bruno Cabrillac*, presents other bold and visionary approaches. His discussion focuses on the following questions: Will a resilient EMU take more than the consensual measures voiced by the Commission and the Franco-German group of economists? Will the Five Presidents' Report be implemented, or will it be replaced by another vision? What are the major political disagreements and technical obstacles to achieving our goals? How can we overcome them? And last but not least, one of the main questions for central bankers: How can the euro help Europe contribute to a financially more stable and economically more prospering world?

Finally, let me briefly introduce this section's contributors: Bruno Cabrillac is Deputy Director General of Economics and International Relations at the Banque de France. Between 2008 and 2016, he was Director of Economics and International European Relations. He entered the Banque de France in 1984, serving as economist initially in the Foreign Relations Department, then in the Research and Forecast Department. He was seconded to the Ministry of Finance as Financial Counsellor in Cairo and Tokyo, having worked as a foreign exchange and bond trader for eighteen months prior to that. In 1997, he was appointed Head of the African Department (Zone Franc) of the Banque de France. In the early 2000s, he became Trade Commissioner and Banque de France representative in Hong Kong and Macau, and later Financial Counsellor for Africa at the French Ministry of Finance.

Isabel Schnabel is Professor of Financial Economics at the University of Bonn and a member of the German Council of Economic Experts (Sachverständigenrat), an independent advisory body of the German government. She is Research Fellow at the Centre for Economic Policy Research (CEPR) and at the CESifo, as well as Research Affiliate (prior to that Senior Research Fellow) at the Max Planck Institute for Research on Collective Goods in Bonn. Isabel Schnabel received her doctorate from the University of Mannheim. She was a Visiting Scholar at the International Monetary Fund, the London School of Economics and Harvard University. Isabel Schnabel chairs the Advisory Council of the German Federal Finan-

cial Supervisory Authority (BaFin) and is a member of the Advisory Scientific Committee (ASC) of the European Systemic Risk Board (ESRB).

[3] *https://seekingalpha.com/article/4226361-eurozone-filibuster-eurozone-reforms-continues.*
[4] *https://voxeu.org/article/how-reconcile-risk-sharing-and-market-discipline-euro-area.*