Towards a Genuine Economic and Monetary Union

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Abstract

Gaston Reinesch, the current Governor of the Central Bank of Luxembourg, was closely involved in the negotiations for the Maastricht Treaty. To celebrate the relaunch of the Revue de l'euro, as well the 25th anniversary of the signing of this treaty, he agreed to share his thoughts on the drawbacks and opportunities of EMU. In line with the Five Presidents' Report, he emphasises the need to go beyond the Maastricht Treaty by completing the Banking Union and establishing a genuine Economic, Fiscal and Social Union. [The Chief Editor].

The creation of the EMU

2017 marks the 60th anniversary of the signature of the Treaties of Rome and the 25th anniversary of the signature of the Maastricht Treaty.

I had the opportunity to be closely involved in the negotiations of the latter, an ambitious and complex Treaty. On the one hand, this Treaty unifies the various actions of the EU, including in the field of Security and External Relations, while, on the other hand, it creates the Economic and Monetary Union (EMU) with the euro as its central element. The negotiators of the Maastricht Treaty were conscious of the institutional challenges, but were confronted with a political reluctance for any deeper integration in some areas. Compared with the Werner Report (1970), which was advocating a balanced monetary and economic governance at the EU level, the Maastricht Treaty reflected a special political compromise.

The political compromise at the time resulted in an EMU marked by an asymmetry between, on the one hand, a centralised monetary policy to be conducted by a new independent Central Bank, and, on the other hand, decentralised economic policies, to be conducted at national level but subject to coordination mechanisms and binding rules, in particular to ensure fiscal discipline.

The resilience of the Euro

After a very successful start of the EMU, and the increase from 11 to 19 participating countries, the euro area was particularly affected by the economic crisis since 2007.

Since then we have been confronted with a deeply modified economic environment: low growth, high unemployment, large public deficits, low investments and, lately, unprecedented low inflation.

As usual, economic crisis stimulates political tensions. This is particularly visible at the European level, where public governance is harmed by complex decision-making processes, perceived weak institutions, political tensions, a resurgence of nationalism and populism, a lack of common vision and doubts on the benefits of "an ever closer Union", which in the UK translated into the referendum in favour of Brexit.

However, despite the sceptics, the Monetary Union proved to be resilient.

EMU authorities have reacted to the crisis. The Eurosystem has extended the use of instruments of its monetary policy, notably through the so-called "unconventional instruments". It has been active in the field of financial stability, according to its mandate.

What we also observe is the continued popular support for the euro as single currency, estimated at more than 70% in the euro area.

It may also be recalled that the participation in the euro is deemed to be irreversible. Article 50 of the Treaty on the EU (TEU), introduced by the Lisbon Treaty (2009), provides for voluntary withdrawal of a Member State from the EU. Yet no provision exists for the withdrawal of a Member State from the euro area.

To safeguard the stability of the euro area as a whole, the European Stability Mechanism (ESM) was established (2013).

The Court of Justice of the EU confirmed the compatibility of the new instruments with the basic rules of the EMU, as provided by the Treaties. The stability of the euro area, the objective of the ESM, is distinct but complementary to the price stability, primary objective of the Eurosystem according to the Treaty (Pringle Case). The Court also recognised the wide discretionary powers of the ECB to take appropriate measures in order to ensure the effectiveness of the single monetary policy and to contribute to the stability of the euro area (Gauweiler Case).

Beyond Maastricht

Towards Banking and Financial Union

To support the Monetary Union and respond to the crisis, the Banking Union (BU) was set up. The EU embarked on this ambitious and demanding initiative in order to promote a safe euro area banking sector and to break the link between the sovereigns and banks especially in periods of financial distress. The first pillar, starting from 4 November 2014, on the basis of a specific provision of the Maastricht Treaty, consists in the Single Supervisory Mechanism (SSM), which places the ECB at the centre of the supervision of approximately 6,000 banks in the euro area. The second pillar, which became operational as from 1 January 2016, is the Single Resolution Mechanism (SRM), composed of a Single Resolution Board and a Single Resolution Fund, in order to safeguard critical functions of our banking system and minimize costs for taxpayers. The third pillar envisages the creation of a European Deposit Insurance Scheme (EDIS), as a harmonized European tool to protect depositors, in case of bank insolvency.

Today, the BU is still incomplete. The smooth functioning of the SSM is negatively affected by the lack of legal harmonization and by the remaining national character of banking sectors.

The effectiveness of the new resolution procedures has not been tested to date, at least for significant banks in the euro area. In addition, the proposal on EDIS is still pending, confronted with political opposition.

Moreover, we need further integration of European capital markets. The project of capital markets union may be expected to remove obstacles to the development of integrated European capital markets, to contribute to the broader financing sources and to boost the European financial markets, which still lag behind those of the US and of some Asian economies.

Towards Economic, Fiscal and Social Union

The single monetary policy alone cannot meet all macroeconomic goals; other policies should be conducted in a more European, or at least euro area, dimension.

Progress is required notably in the field of economic, fiscal and social policies.

Some measures have been taken since 2010 to restore financial stability with the creation of new European authorities; the fiscal EU/euro area framework has also been strengthened. However, much more has to be done in particular to allow public finances to ensure both stability and growth. Structural reforms are required both at the level of Member States and at the European level.

European Citizens may expect that certain European public goods they need or request are supported by the European budget (EU and/or euro Area), as well as a possible EMU Treasury or a Minister of Finance for the euro area.

In the line with the Five Presidents' Report of 22 June 2015 and pending the discussion on the Future of Europe, the current challenges are an opportunity for the EU to proceed to a renewed "Maastricht commitment", to take a bold decision marked by "a new stage in the process of European integration". EMU requires more integration, comprising an economic and fiscal union, alongside a reinforced financial Union with the final objective of a political union.

A Treaty revision will at some point be required to this purpose. At least the intergovernmental agreements should be consolidated into the Treaty. EMU reforms have, of course, to be accepted by citizens; civil dialogue, democratic accountability and legitimacy have to be supported by an active pro-European communication, all across the Member States.

Pending such new institutional order, an enhanced national ownership and a consistent implementation of the common rules and policies at national, EU and euro area level, are essential.

Europe has already proved its capacity to overcome difficult times and to reinvent itself. We have to demonstrate that our basic values of peace, freedom, democracy and unity can contribute to a sound economy and society; the European Union should still be an example for the rest of the world.