How to make Europe's monetary union more dynamic and humane

Crisis: deep scars and division

The crisis has left deep scars, in the wealth of the most affected Europeans and in the trust in Europe and its currency. Greek citizens who saw their national income decline by more than a quarter, Irish who were evicted by banks from their repossessed homes, Portuguese pensioners whose already low incomes were severely cut back, and Cypriots who lost money when the banks on their island were restructured were in the line of fire of the interventions, notably the budget cuts. An effective European stimulus to the economy that could have eased the pain for the citizens did not materialize. The inhabitants of, in particular, Germany, the Netherlands and Finland complained that their governments entered into bail-outs. Unencumbered by knowledge about how such financial assistance is effected (largely outside the budget through the European Stability Mechanism (ESM) borrowing on the capital markets and on-lending to the peripheral States) or about the beneficiaries (repayment of Dutch financial institutions that had invested in Greek government bonds, for example), complaints were rife that budgets are cut here, while elsewhere money is squandered. The euro was blamed. High time to provide an analysis of what went wrong and to plan for a dynamic currency union, which conducts humane policies.

The euro: design faults or wrong policies?

Two schools of thought argue about what went wrong: those who see *design faults* in the EMU (Economic and Monetary Union) as the cause for the euro crisis are pitted against others who criticise the *policy choices* made. The latter think better choices and faster decision-making would have resulted in better outcomes. They, therefore, don't see a need to amend EMU's Maastricht design. There is a lot to say for both lines of reasoning.

In a recent lecture for researches on a more dynamic EMU (the ADEMU Project: *A Dynamic Economic and Monetary Union*)[1], I mentioned the following *design faults*: the excessive reliance on the proper functioning of markets as a corrective to government policy (rising interest rates would call spendthrift governments to order in time) and the absence of European banking supervision from the start. When one adds to this that the 'E' (economic union) had been left underdeveloped on purpose as Member States wished to retain their powers, the ingredients are given for a lack of action at European level. Endless negotiations between 28 and 19 Member States characterized the reaction of the EU and the Eurozone rather than a strong federal response which the United States was able to give when the crisis broke out in 2008. National guarantees for the banking industry (which Ireland declared immediately) undercut confidence in the soundness of budgets, as banks have high levels of bonds issued by their own governments on their books: the infamous sovereign/bank doom loop which supervision by the European Central Bank (ECB) should help eliminate. But policy choices also underlie the euro crisis. Hindered by lack of competences at European level, where only the ECB has the power to act effectively, going to the limits of its mandate, Finance Ministers (Ecofin, Eurogroup) could only endeavour to coordinate their policies

[1] *Sustainable Economic and Monetary Union in Europe in turbulent times*, lecture for researchers in the ADEMU Project at the European University Institute in Fiesole, 10 October 2016. For the full text, see: http://ademu-project.eu/ and http://renesmits.eu/.

more strongly. Their policies and the conditionality for loans to peripheral States imposed *budget cuts* and *structural reforms*.

Budget cuts were inevitable where budgets had become completely unhinged but, from an economic point of view, there was a strong case to make for a European stimulus to counterbalance the worst effects of the national budget cuts: the absence of a sufficiently large and flexible EU budget prevented this. Germany and the Netherlands did not stimulate their economies and imposed even stricter rules on budgetary balance. *Structural reforms*, breaking open vested interests in an economy and fostering growth, can always count on heavy resistance from protected sectors. Such reforms take too long to show results whilst budget cuts are felt immediately.

The combination of design faults and wrong policy choices had great social consequences: high unemployment, worse public health and societal discontent across Europe.

Humaneness of policies

European policies have been deficient in humaneness: well-reasoned from a strictly economic point of view (even though very much contested) but without compassion for the effects 'on the ground'. Only when the third support package for Greece was adopted did the European Commission accompany the conditionality by a 'social impact assessment' for the Greek population. However, I very much doubt this assessment of the high social costs led to adaptation of the conditions. A sustainable EMU requires that the currency union brings advantages for citizens and companies (including SMEs).

Beyond the differences

Crisis-fighting measures, such as the ESM and the strengthening of the economic governance (the whole set of procedures and decisions embedding national economic policies in a European framework), only sharpen the contrasts, both among Member States and with 'Brussels'. When the German parliament decides in the last instance on an ESM loan to Greece, this pits the peoples' representatives in Berlin against those in Athens. Differences are big already: 'Brussels' and national capitals fight each other ceaselessly on budgetary rules. Furthermore, there is a constant tension between *rules* and *discretion*: 'Stick to the rules', says Minister Jeroen Dijsselbloem; 'Make wise policy choices for the European economy (i.e.: apply stimulus)', say Italy and France.

These contradictions can only be overcome by new forms of European economic policy. This involves joint decisions about the direction for the whole euro area instead of individual members only coordinating their policies among themselves (which often is not successful). The debate on the best policy for the euro area must take place at European level in particular. It implies a (limited) budget at the level of the Eurozone. This could consist of federal support for national benefits: the level of, and access to, unemployment benefits would remain determined nationally with the EU contributing. Strengthening of the economic leg of EMU also means gradual transition to joint issuance of debt securities. Clever plans have been devised for such Eurobonds, ensuring that the money borrowed is more expensive for governments that do not have their budgets in order. A European Minister of Finance would be responsible for issuance. A European Deposit Insurance System (EDIS) is required. In any case, the economic governance of the monetary union requires much more transparency: currently, the rules are scattered across a dozen technical pieces of legislation. Much greater transparency is important for legitimacy and democratic control, and a minimum requirement for citizens' confidence in the political process.

Awareness

Ideas for EMU's future: less emphasis on the *countries* and more on the *regions* in economic policy; *awareness of the assumptions* used by researchers and policy-makers when they discuss economic policy; greater *recognition of the cultural dimension* of the European project, such as our use of language. What sounds good in one language ('*Sparmaßnahmen*': savings) sounds terrible in another ('austerity', budget cuts); the word for 'debt' in German and Dutch covers both 'debt' and 'guilt', so it has a moral connotation. Awareness also means greater self-knowledge, individually and as a society, which requires an open mind. More awareness of what unites us as human beings is a prerequisite for progress in Europe and in the world.

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