

## ELF EXPERT FORUM ON THE FUTURE OF THE EMU

Frankfurt, 3 May 2018

The evening discussion was opened by **Svenja HAHN** (*Member of the ALDE PARTY Manifesto Drafting Committee*). In her introductory remarks, she offered an overview of the ALDE Manifesto Drafting Process and of the status of the Expert Forums underling the importance of these hearings for the Manifesto process.

**Olli Rehn**, the Former European Commissioner for Economic and Monetary affairs, gave a keynote speech in which he stated that the discussions on European monetary integration always tend to be quite technical, but they are nonetheless necessary. He said that the role of liberals is increasingly important in these times when we are threatened politically and socially by USA distancing itself from the global governance, the UK leaving the EU, Russia trying to assert old school power politics, and China getting ever stronger and authoritarian. Strengthening the EMU should be part of broader goal of strengthening the European Union.

He said Eurozone reform is urgent. However, the EU has to put its house in order first strengthening its supranational institutions learning lessons from the previous crisis. He said the Eurozone crisis unveiled huge problems in the EMU institutions, and that prior to the crisis, too little attention was given to the stability of the banking system and the financial instability was the neglected child of this situation. This explained why the EU had to reform the system in the middle of the crisis and why the crisis galvanised the response. He highlighted that despite the EU is now experiencing its sixth successive year of Eurozone growth since the crisis - there has been significant improvement in the maladies of the Member States' economies, especially when it comes to unemployment who has been declining since 2012-2013; fiscal deficits are now under control and the banking sector is gradually healing – there is no room for complacency and the EU needs to continue the reconstruction of the EMU. The EU, he said, should learn from its past mistakes and use these *good times* for reforming and preparing the system for future challenges that will come.

He argued that the EU needs a synthesis of the two main approaches characterising the debate on the EMU reform – that is, the German and French. While the German approach stresses the need of respecting market rules, the French approach puts more weights on risk-sharing through insurance arrangements as well as macroeconomic stabilisation and regards flexibility in uncertain circumstances as positive. These approaches, he said, should not be taken as representative of the leaders of each country but as two philosophies that can be synthetised in one approach that combines the responsibility of each Member States for its own policies, with a structure that can foster financial stability and improve macro-financial performance. In practical terms, every step made in risk sharing, has to be followed by the lowering of the risk.

On the Banking Union, he affirmed that lots of steps have been taken since 2012, but it is still far from being completed and reforms are still needed. As one example: although deposit guarantees are

harmonised, they are nationally based – meaning that each Member State has its own fund. He claimed that if the EU had a strong Banking Union, the pressure for having a strong Credit Union would decrease.

In addition, the European Stability Mechanism (ESM) should be reformed, taking an example from the IMF. It would be indeed good to further develop the ESM to allow it to act quickly when it comes to its areas of competence. He suggested to give the ESM a credit instrument that will allow it to step in to quell any concerns in the market.

He added that the EU should not focus too much on the European Monetary Fund – which, from his perspective is more a nameplate – instead urging the EU to focus on the reforms that can enhance the EU capacity to act in case of market turbulence.

He then repeated that the current system of economic rules - that it is very close to his heart since he proposed it when European Commissioner – has worked to some extent but it needs to be revised. He particularly suggested to introduce, as part of the next reform effort, an expenditure rule linking public finances of the member states to growth with expenditure ceilings. He reported that this method works well in The Netherlands, Sweden and Finland and it can work better than the current EU rules at the EU level.

He concluded saying that, overall, there is a need of sense of direction and of realism because, in the future, the EU needs less of ‘muddling through’ and more of getting reform done to ensure stability and accountability on which it can build solidarity.

After the keynote speech, **Prof. Iain BEGG** (*Professorial Research Fellow at the LSE European Institute*) and **Prof. Dr. Lucia QUAGLIA** (*Professor at the University of Bologna*) joined Olli Rehn for a discussion on the ongoing changes, emerging trends and their potential implications, and to set out possible concrete steps for deepening and completing the Economic and Monetary Union.

**Tobias Armbrüster** (*Journalist, Deutschlandradio*), moderating, introduced the panelists and asked their views on the EMU which he said was at the heart of the dilemma between *growing euroscepticism and increased-EU-consciousness*. The EMU, he stated, was meant to bring people together but in some cases it is bringing them apart.

Ms. **Quaglia** said that the roots of the problem lie in the fact that the EMU was set up in an asymmetric way – mainly due to different interests and policy views in the Member States. The result, she said, was a compromise between two different coalitions promoting different approaches: the Nordic coalition (or German approach) promoting the respect of market rules and the French-led coalition promoting economic solidarity – that led to an incomplete banking union. She also added that, in reforming the EMU, the EU should pay attention to what is politically and economically feasible to achieve.

The moderator then asked what should be done to support public opinion of the EMU.

Mr. **Begg** affirmed that the EU has a future, but it faces choices and needs consensus. The EMU's success, he said, was never in doubt but it faces choices regarding what kind of future will it have. Its future has to be one that makes sense to the citizens – but this goal is harder than it sounds since it requires forming a consensus about where the EU and the Eurozone are going, and no one seems to know where the EMU will go. Creating an EU-wide view on where to go, it is complicated by the EU election set up – they are indeed fought on national battlefields and national campaigns, and this create disconnection between the EU and its people.

Mr. Rehn said it is better to recognise that we all have different ideas on the future of the EU and EMU to ensure economic growth and prosperity. In this regard, he highlighted the role of the Single Market in facilitating economic growth and employment. He thus suggested to focus on completing the Single Market.

Following this answer, the moderator asked Ms. Quaglia what capabilities the EU has to encourage EU governments to act together from the perspective of a political scientist.

Ms. Quaglia said this is a very complex issue because it has always been hard to reach political consensus, but today the situation is even more complex. Indeed, in the past, reaching an agreement was difficult because there was a lack of direct engagement of the public in the EU politics and left leaders to work on compromises. Today, she said, it is even more complicated because the public is more attentive. But this attention is fragmented across Europe making it harder to find political compromises. She urged for reform of the EMU to be in an economically-efficient way but also to pay attention to the political realities and Europeanising the debate.

The moderator asked Mr. Begg whether and why the further developments of the Banking Union are needed since from Mr. Rehn's presentation the situation seems to go quite well.

Mr. Begg said that having an incomplete Banking Union creates many problems and does not arm the EU for facing future crises. We do not know when the next crisis will come, but it will come sooner or later. The main problem, he argued, is that there is no a common financial and fiscal policy in the EU and consequently no comprehensive way of making adjustments. He stressed the need of intervening in this "quiet" moment so as to be able to face the next crisis prepared and be creative in reforming the EMU. He noticed that the EU tends to design instruments to deal with the previous crisis rather than instruments to deal with the future.

The moderator asked what still need to be done to complete the Banking Union.

Ms. Quaglia said that it is important to strengthen the power of the European Supervisory Authorities (ESA) and complete the Capital Markets Union (CMU). She urged the EU to take the momentum opened by Brexit that woke the support for the revision of the ESA's power and for the completion of the CMU.

Mr. Begg instead said that the problem lies in the huge number of EU rules. Currently there are too many rules, he argued, and they are often too complex and not appropriate to the circumstances they are applied in – they contract countries that are already contracting and they expand countries that are already expanding – and, thus, sometimes are not even enforced. This lack of enforcement has a toxic effect and other member states might start to misbehave too because they know they won't be enforced. He reported that the number of fiscal rules on national budget has increased by factor of 10 over the last 25 years and that the EU now has average of four fiscal rules per country with sizing opportunities allowing to choose one rule over the other. Considering the general reluctance to enforce the EU rules (e.g. who would fine Germany for breaking the surplus rule?) and the EU decision-making process (how can leaders agree to fine a country when they know it might be them who are fined next time?), he thinks that the only solution is not to complete the Banking Union but to bring the rules back to the national level.

Mr. Rehn agreed with Mr. Begg regarding the large number of rules in place, but he posed a counter question wondering if it would be better not to have a fiscal policy at all. He then highlighted that certain rules have had good effects and this demonstrated that it is good to have a set of EU rules. He thinks that the EU would not have recovered from the crisis without the EMU. He however recognised the difficulties in enforcing the EU rules, saying that the problem is that the EMU rules were conceived as advisory tools without foreseeing sanctions.

Ms. Quaglia intervened highlighting that in South Europe there is still low level of growth and unemployment because the rules were impossible to enforce: governments find hard to tight the public deficit. She urged once again to take into consideration the political feasibility of the EMU rules.

The moderator asked if a more centralised system would help or not.

Mr. Begg said that a European Finance Minister might work to a certain extent, but ultimately would not make such a difference. The question, he affirmed, would then be what role that minister would play. From his perspective, the role could become a proper one and potentially interesting only if there was a federal budget above Member States. If not, he would ultimately just be able to exercise pressure but not more than that.

The last question from the moderator regarded the possibility of the Eurozone enlargement.

Mr. Rehn said that it would certainly be not an easy question to be answered in the following years: on one hand, the EU needs to preserve the unity of the EU countries and opening up to other countries; on the other hand, it has to complete the EMU.

From the audience, the panels were asked if the EU can really proceed with the current EU decision-making process that allows countries to express vetoes. Mr. Rehn said that there is the need of full convergence for an efficient EMU but it is impossible because it requires all the EU economies to be similar. He insisted that the EU has to accept that its Member States' economies are different and that

there are different competitive advantages. However, he concluded, the EU must ensure that its Member States respect the rules and gain ownership over them.

The moderator concluded the debate with one last question regarding whether the EMU can survive with so many “cooks in the room”.

Mr. Quaglia said that it will survive because, generally, the EU speeds into actions when there are problems. She is therefore confident on the future. Mr. Begg he is sure that the EMU will not collapse but there must be a reflection on where to go – do we want to control risk or reduce risk?

**Christopher Gohl** (*Member of the Manifesto Drafting Committee*) then gave some concluding remarks thanking for the vibrant discussion and organisation. He highlighted that the EU has always provided prosperity and peace. If prosperity falls, also peace will fall – and, the EU should be aware of that. He urged the EU Member States and leaders – particularly Germany – to talk about solidarity and not only stability when reforming the EMU. He concluded that, considering the competition in the EU, delegating more to the EU institutions for it to be capable of acting in the world as one block. When it comes to the rules issue, instead, he suggested to focus on the quality rather than the quantity of the rules – stressing that solutions might not always be nice and easy but necessary for the EU.