

Deepening Economic and Monetary Union

Talk at Bruegel, 20th January 2015

Participants : Pierre Moscovici, European Commissioner for Economic and Financial Affairs, Taxation and Customs, Luc Frieden, Vice Chairman of Deutsche Bank, and David Vines, Fellow of Balliol College, University of Oxford

Moscovici started by arguing that, now that the acute phase of the crisis is over, it is time to think about how to design a stable and balanced EMU. We need a shared understanding of what caused the crisis, of what went wrong in the response to the crisis, and we need to agree on the features that the EMU should possess.

Moscovici believes that the flawed setup of the EMU contributed to the emergence of the crisis, and that the governance of the EMU failed on two fronts: crisis prevention (no build-up of fiscal buffers in good times, excessive risk-taking in the private sector, macro imbalances, and a lack of reform implementation) and crisis resolution (lack of an effective firewall to prevent strong feedback loops that emerged between the sovereign and financial sectors).

While the Commissioner agrees that important progress has been made (Banking Union, European Stability Mechanism, Imbalances Procedure), he points out that the results are not there yet in terms of growth, which he believes is essential to stabilise the EMU in the short term. He calls for action both on the demand and the supply sides, as he considers evident that we have a problem of aggregate demand. Deep structural reforms are also needed, as well as a coordinated boost to investment and a pursuit of fiscal responsibility. He also called for a euro area fiscal capacity, and an improvement of the democratic legitimacy and accountability of EU institutions.

Luc Frieden broadly agreed with Moscovici's analysis and goals. However he pointed to the fact that the EMU has achieved stabilisation in the sense that we now have much less fluctuations in exchange rates and inflation than we had before the euro. Frieden also stressed the need for higher coordination, namely a deepened discussion of national reform programs and a strengthened economic surveillance. He agreed with Moscovici on the need for a common fiscal capacity, but also suggested that we might need a review of competition law and harmonisation of taxation.

David Vines disagreed with the view that the danger is past. He stressed the political risk of just muddling through, and outlined three difficult choices that EU policy makers face. First, he is convinced of the need for eventual sovereign debt writedowns. Second, he noted that the adjustment in labour costs cannot continue through deflation in the South and very low inflation in the North: we need high inflation in the core. Finally, the Fiscal Framework has to be changed, as it is now forcing contraction in the North and austerity in the South, a recipe for non-growth

Event notes by Álvaro Leandro Fernández-Gil