



HOW MUCH OF A FISCAL UNION FOR THE EMU?

Banco de España, Madrid, 18-19 May 2017

Policy Panel “Are current fiscal rules credible? What is the role of fiscal rules and of independent fiscal councils?”

Some observations

by

René Smits

Professor, Law of the Economic and Monetary Union, University of Amsterdam

Issues with current set-up - 1

1. **Design faults** in EMU: excessive reliance on markets; insufficient own EU competences to adopt discretionary economic policy stance for EA **Europe's opportunity to re-design is now (Macron)**
2. **Rules vs. discretion**: EDP/SGP is rules-based but requires a lot of discretion and is applied differently among Member States
3. **Discord**: EDP/SGP sets EU against Member States and leads to perennial discord, pitting Brussels against nation State, North vs. South **Europe should go beyond an adversarial economic governance system**
4. **ESM set-up strengthens North/South divide**: creditor nations' parliaments consent required sets them against debtor nations' legislatures (Lorenzo Bini Smaghi) **ESM needs to be incorporated in EU framework**

Issues with current set-up - 2

5. **Lack of transparency** byzantine rules spread over twelve documents, at least: Europe needs a Single Fiscal and Economic Governance Rulebook
6. **Lack of transparency, enforcement and review (conditionality)**: conditionality originally spelled out in EU legal acts, subsequently merely indicated therein and elaborated in MoUs only; makes enforcement difficult (primacy of EU law) and judicial review almost impossible Euro Area in need of legislative enactments on economic policy subject to democratic control and judicial review
7. **Policy bias**: dominance of Northern budgetary restraints consensus Yearning for Europe-wide debate (cultural element of integration)

Issues with current set-up - 3

8. **Design fault (of EU, not 'just' EMU):** hard to overcome entrenched interests through structural reforms as EU relies on State governments to implement EU measures **Europe needs re-thinking its set-up and consider more republican arrangements (opportunity opening...)**
9. **Uneven application of economic policy across EU/EA:** discrimination between EU citizens in respect of economic policy decisions enacted at EU/EA level **After the crisis, a joint economic stance for the Euro Area is needed that affects citizens more evenly**
10. **Imaginative solutions are welcome** instead of half-way houses (Mario Draghi) **Joint unemployment insurance, VAT receipt sharing....**