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EMU: what priorities and ambitions for deepening the EMU?

Speakers

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Rimantas Šadžius

Good morning. The discussion about the future of the eurozone and the current common currency – but hopefully future single currency – started yesterday. It was very inspiring to listen to the panel and also to the de Larosière lecture of Dr. Schäuble. Since we have quite a short amount of time, I would ask my discussants to concentrate on the very particular issues that I will announce very soon.

We have very different people at the table. François Villeroy de Galhau is head of the Banque de France, coming from a country which was one of the founders of the European Union and the euro. François participated in establishing the euro as a currency in his career so he touched on the very fundamentals of the euro. He comes from a very large country with 65 million people and a huge economy which is still struggling to balance its finance.

On the other side of the spectrum is Peter Kažimír, coming from Slovakia which is a newcomer to the eurozone in 2009. It is a small country with five million people. I, Rimantas Šadžius, Minister of Finance of Lithuania, also come from a small country which entered the eurozone quite recently; it was the 19th member state from 2015. Both Slovakia and Lithuania underwent internal devaluation so we have already got the negative side of being in this one currency zone.

Mr. Dombrovskis combines the two sides. He comes from a small country, Latvia, that underwent internal devaluation. He is the former Prime Minister of Latvia who led the country to the eurozone and is now Vice-President with the European Commission responsible for euro affairs.

Concerning the euro as a currency, there are developments and a deepening of economic and monetary union. There are things that we all agree on and I propose that we do not touch these topics again. We all agree that the euro by itself is not a factor inducing convergence of the economies of the countries; but we need that convergence and hopefully up convergence for those countries that are still below the average. We are on track with many important projects such as: the banking union, which we should complete; the capital markets union, which we should strive to implement; and the energy union, which could unite us. We have the European Semester that we all agree we should improve. We have the ESM that could be used to the best of its potential. We agree on this and we will not get back to that.

There are things that we still do not know in terms of what to do and how to create. I would start with structural reforms and how to induce and support structural reforms in the countries – we do not know. How to complete single markets and in what respects – we still do not know. Investment union – investment that could enhance competitiveness and could enhance up convergence of the countries – we still do not know the mechanism, although we have the Juncker Plan.

There are points of disagreement between the sides on issues such as: European Union versus Eurozone-only mechanisms; fiscal capacity or European budget; fiscal union or just contractual arrangements; rules-based convergence or institutions-based convergence; and the internal administrative architecture of the eurozone. I propose that we just talk about the internal administrative architecture of the eurozone which is important and without which we cannot move.

I propose that we keep in mind three principles: i) that we agree that we should ensure the competitiveness of the eurozone as a whole; ii) that we should keep the integrity of the eurozone because the euro is the way forward with no way back which is a principle in the fundamentals of the eurozone; and iii) that we need efficient governance. I propose that we have some kind of brainstorm about this internal administrative and institutional architecture, whether that be present within treaties or requiring a change of treaties. I propose that we forget about treaties. Let us dream. I will ask François to start because he has very concrete issues to tell us.

François Villeroy de Galhau

Thank you, Rimantas, and good morning to everybody. I am the first dreamer, or the second after you, chairman. It is 8.10; it is the precise moment to dream. I hope you had a good night. Let me address the various questions you put on the table.

First, I am not convinced that the opposition between founders and newcomers or large and small countries is especially accurate for the topic of this morning, and I will say why later.

We will focus on public policies and economic policies this morning. But let me also stress that for convergence and further integration I am a great supporter of market integration and capital market union as well as private risk sharing through the borders of the eurozone. I advocated in the last Eurofi meeting in Luxembourg six months ago for what we could call a “Financing and Investment Union” which would be the sum of the Juncker Plan and the CMU. But this is not our topic this morning so I will come back to economic policies.

Could I add, Rimantas, to the things we agree about? There are two things which are very important for our topic. First, speaking as a central bank governor, monetary policy cannot be the only game in town. Monetary policy is active and adequate and I would be ready to speak about it, but it cannot be the only game in town. We need active and adequate fiscal and structural policies.

Second, let us look at the long story over the last 25 years of economic and monetary union. Without any doubt, we have been successful on monetary union. The ECB is credible and the monetary policy is working. We added an unexpected pillar, the banking union, which has made significant progress and which is still underway. But the Economic Union, which was supposed to be part of the story, is a disappointment, to say the least. I would like to see how we could go forward and how we could get out of a dead-end regarding economic union. I want to mention three conditions or three pre-requisites, the third of which deals with your question about institutional architecture.

The three pre-requisites to improve economic union

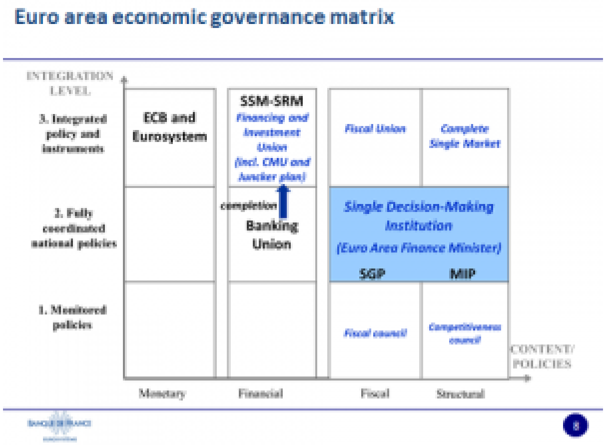
First, if we want progress on economic union or economic co-ordination – and we need it – we must make the economic case. We are facing growing euro-scepticism in all our countries. If this debate is seen as a purely political one or a purely institutional one, we will lose. In other words, it is not a question about more Brussels; it is a very concrete question about more growth and more jobs in Europe. According to the first estimates we made, non-coordination – i.e. the lack of economic union – has cost Europe in the last five years, since the beginning of the Greek crisis, between two and five points of GDP. That means a drop of millions but we must work further on the economic case very concretely.

The second pre-requisite – and here I will speak of two large countries but it is also interesting for the others – is to go beyond some kind of French-German malentendu or mistrust about this issue. As you are reminded, I belong to those who participated – and I was at Maastricht – at the start of the adventure. I belong, unfortunately, to the oldest among us and we remember that the French Finance Minister at the time, Pierre Bérégovoy, proposed what he called an “economic government”. I was adviser to Pierre Bérégovoy at that time. I do not know whether the wording was appropriate, but there was already from the start a German mistrust because Germans thought – and, to be honest, they were not completely wrong at the time – that the economic government was a French trick to balance the independence of the European Central Bank. At that time, it may have been true. I would add that, today, France is a very strong supporter of ECB independence.

There is another mistrust still persisting: when France and others speak of economic co ordination in the eurozone, Germans tend to think that it is a new French trick to avoid domestic reforms in France or in other countries. That might be true sometimes, but we must overcome this mistrust. We obviously need stronger domestic reforms in France and in other countries but we also need economic co-ordination. In other words, it is this old dead lock of domestic reform **versus** European co ordination. It must be both domestic reforms **and** European co-ordination. We have been stuck in this debate for two decades.

This brings me to the third pre-requisite, which goes directly to your point. In order to re-build some kind of trust pact or growth pact, we need a stronger institution. We have rules and they must be obeyed. They are necessary but they are not sufficient. Mario Draghi, among others, made the point in a speech last year in Frankfurt that rules without institutions are less efficient than institutions with a mandate. Monetary policy is more efficient than stability and growth pacts. I am not saying that we should forget about the rules – I will come back to them – but we need a stronger economic institution and what we could call a Euro Area Finance Minister.

I have one slide to conclude with.



On this slide I present the four elements of a comprehensive economic policy, but I will focus on the two last on the right: fiscal and structural. They need to be co-ordinated. On the vertical axis are the various levels of integration. From the top, we know what an integrated policy is: this is monetary policy. We know at the bottom what monitored policies are. This is presently more or less the case of fiscal and structural policy. It is a start but it is not enough. We saw it. What we need is an intermediate level which I call 'full co-ordination'. Fiscal and structural will remain mainly national responsibilities. They will be implemented at the national level. We can further build a fiscal union at the top but this is probably a progressive stage. I could come back to it later.

We need a full coordination institution in the euro area

Let me focus on full co-ordination. We need a collective strategy. We have learnt that the pure addition of national strategies in fiscal and structural policies is sub-optimal from a growth point of view. A Euro Area Finance Minister would be democratically appointed and would be responsible for preparing – within and chairing the Eurogroup – this collective strategy which would be adopted by the Eurogroup and the European Parliament in a European formation. Secondly, he would be responsible for supervising the implementation of this collective strategy by member states with a system of negative and positive incentives; negatives being the existing sanctions and positives perhaps being the contractual agreements. Third, he would be responsible for a centralised monitoring of crisis management with the ESM. This would be a decisive progress. A possible fourth task, coming back to the fiscal union, could be responsibility, to begin with, of a euro area convergence fund evolving progressively towards a euro area budget.

I will stop there but I think this is a reasonable but decisive step towards efficient economic co ordination and more growth and jobs.

Rimantas Šadžius

Thank you, François. Of course, this is perhaps against the rule of good moderation but, since we are having a brainstorm, I want to ask Peter: how do you see this very interesting idea coming from France to democratically appoint a euro area minister of finance looking more like a monarch - Euro Area King?

Peter Kažimír

First of all, good morning. After the French breakfast, I think we are missing some German around the table at the moment while discussing the future of the European monetary union so early in the morning.

Economic Union: we need first to agree on the content

I used to get asked the question: why does Slovakia, as a country with its fiscally hawkish approach, advocate for fiscal integration in the eurozone? I must repeat again and again that, by supporting fiscal integration, I do not deny the necessity of complying with fiscal rules, because this is the core business for us. My country is an example of that: we are doing our domestic homework in terms of fiscal and structural policies which is essential for economic growth and stability. But this is not enough.

The issue of a "democratically elected king", among other things, is about the structural and administrative reform and who is decisive in this process; but I think we are missing the content. First of all, we have to agree on the content. Fiscal sustainability and macro economic stabilisation are not mutually exclusive but rather complementary objectives. Only together, hand in hand, can they guarantee what we want, which is to stabilise a prosperous economic environment.

Looking around, we see a huge number of risks at the moment like Brexit, migration, instability in Ukraine and US domestic issues. There is no doubt the eurozone is already better equipped to deal with such shocks than it was a couple of years ago but, honestly, I am not convinced that it would be ready to withstand another economic crisis of 2008, while facing crises on other fronts. More is needed to protect us in cases where national fiscal stabilisers are not enough to cope with asymmetric shocks, and also when the monetary policy is limited. This is particularly important when countries are making efforts to reach their fiscal targets and therefore do not have much room to use national fiscal policies for stabilisation.

We have to tackle the symmetric and asymmetric shocks in the eurozone. We also have to admit that structural reforms are needed but that they may not bear fruit immediately. In addition, the member states must overcome the burden of the debt legacies which is quite visible.

We are advocating a fiscal capacity

We are advocating a fiscal capacity and one of the possible instruments that could pursue the goal of smoothing asymmetric shocks, in our view, is a common unemployment insurance scheme. We used to irritate the others with this issue together with Pier Carlo, because this idea is originally Italian. We would like to focus on this tool as something quite visible and understandable for others; it is good work but we do not see this rule as a permanent transfer but rather as a temporary transfer among the countries. We also see that we cannot resolve all the problems just with this; it is not a panacea for all situations. What is most important for us is that which must be done at home. This is our position and we would like to follow this idea and to follow the rules.

Rimantas Šadžius

Thank you, Peter, especially for stressing the importance of homework. You also made a very concrete proposal of how the eurozone could be visible to the European citizens. To maintain equality, I would wonder why, say, this unemployment insurance should not be used for Bulgarians and Romanians who also cope with the same problems but are still not in the eurozone.

Valdis, you have heard everything. As a potential euro area minister of finance, or a “Euro Area King”, I wonder if you could respond sincerely with your personal, rather than institutional, view.

Valdis Dombrovskis

Thank you, Rimantas. Good morning, everyone. The European Commission right now is actively engaged in the work of completing the economic and monetary union, and I agree with what you said initially – and this is something which is also underlying the idea of the Five Presidents’ Report – that we need to restore the process of convergence.

We need to reignite the economic convergence within the euro area

The euro and the euro area was a great engine for convergence in its first decade or so but, since the global financial and economic crisis, this process of convergence has stopped; so basically we need to re ignite the convergence within the euro area. The question is how to do it. There are a number of things which we can do now. We do not need to wait for institutional changes or treaty changes. There are a number of things that we could do right now: something which we call ‘Deepening by Doing’.

First, we need to set clear common reform priorities. This is why we are giving more prominence to euro area recommendations, which is also to be reflected in recommendations we will give to individual euro area member states in setting a clear set of joint priorities on enhancing productivity, adjusting labour markets, addressing fiscal situations and talking about the financial sector and working out non-performing loans. We know that the Eurogroup is benchmarking the implementation of those priorities across member states and we are supporting this strongly; the Five Presidents’ Report looks at this both in terms of benchmarking at the first stage and making those benchmarks more legally binding at the second stage.

Secondly, we need the engagement of all stakeholders in member states. At the beginning, the European Semester co-ordination mechanism was perceived in member states as some department in a finance ministry sending some papers to Brussels and nothing more. Of course, this approach does not really work so what we need is for the European Semester and our common decision making priorities to become part of the national political debate. That means strongly engaging with member states and not only with governments but with social partners and other stakeholders.

Then, of course, there are limits on how far we can do this within the existing framework; so we are now also preparing what is called Stage 2 of the Five Presidents' Report which are those more far reaching changes. A number of ideas which have been discussed here are also outlined in the Five Presidents' Report like a euro area treasury, a place for more joint decision making, euro area stabilisation function and so on.

We are currently in a broad process of consultation in the first half of this year, running events and gathering views from member states and from stakeholders in all member states. Then we will summarise the feedback that we are getting from the member states through an expert group with a view to preparing a Commission-wide paper in spring 2017 outlining the steps for Stage 2 on completing the European economic and monetary union.

I would underline one principle which I think will be very important, which is that emphasis needs to be put on instruments which deal with risk sharing. There are also things on common decision making which you can also call sovereignty sharing. Risk sharing and sovereignty sharing – i.e. ensuring that all countries in the euro area follow the same rules – will need to go hand in hand in order for us to be successful.

Deepening of the EMU is a necessary objective and we will make this a credible objective once we build a broad consensus among member states on a way forward. I fully agree with what François says that, when we are discussing this, we need to make an economic case to explain not only that we need a treasury or a stabilisation function but to really make the economic case for why we need it and what we will achieve with the help of those changes and those institutions.

Rimantas Šadžius

Thank you, Valdis. That is a broad picture.

François, it is not possible that one man or woman alone – even such as Christine Lagarde – would be able to manage all the issues, both in terms of homework and the work among the countries. Perhaps you could give us your short reaction to what you heard.

François Villeroy de Galhau

Thank you, Rimantas. I think the four of us agree that the content is more important than the architecture. Both of you said it. We tend to always speak about architecture, which is very abstract and theoretical for European citizens.

On your point: it is not for one man. Homework is very important and will remain the task of national finance ministers; and both of you know that it is a very demanding task.

Let me touch on Peter's proposal about the unemployment scheme and my proposal about what I call full co-ordination, i.e. a collective strategy putting in place consistent national, fiscal and structural policies. My conviction is that we can have both of them and we need both. Why do I begin with what I call collective strategy or full co ordination? Because it would already bring much. I am not speaking here on behalf of the French Government, so this is not an official French position. I am an independent central banker and central banks will not decide on this issue, but it is legitimate for them to speak about it. I repeat that the monetary policy cannot be the only game in town.

A collective strategy would mean a very simple thing on which probably all of us agree here: first, more domestic reforms in France and in Italy (I could quote other countries but at least these two) ; second, using the fiscal capacity in Germany. Added, it would bring further unsustainable growth in Europe. This belongs to what I call full co-ordination and collective strategy.

Building a Fiscal Union in three stages

Then comes what I had at the top of my matrix: fiscal union. I consider that your proposal is part of a fiscal union. It comes a bit later for feasibility or trust reasons. I would be ready to sign on your proposal this afternoon. But we know there is resistance, and probably not only from Germany, to be frank, because we need to build trust; and to be sure that the countries which will share this unemployment scheme are reliable. It is why I suggested elaborating on this fiscal union in three stages. Peter could see if we agree. The first stage would be a voluntary step for willing members ready to build a common European good. This is also Pier Carlo Padoan's proposal: refugee settlement, investment, digitisation of Europe, etc.

Stage 2 would be your unemployment scheme, and this is a very powerful stabilisation instrument for all the eurozone member states. But it requires more trust and therefore building this collective strategy together, and perhaps this voluntary euro area convergence fund which I mentioned in stage one.

Stage 3 would be a real euro area budget, meaning common resources, up to some kind of euro area common tax and common borrowing – the famous Eurobonds. We have experienced, in building the EMU, that such a staged approach – and I mentioned three stages not by chance; it was the case for EMU – has been extremely efficient in building convergence. I would suggest that we build this fiscal union according to the same process rather than wait to have full co-ordination and a collective strategy.

Rimantas Šadžius

Thank you, François. Peter, one detail that I would like you to try to defend very briefly is why you confine your proposals, as François just said, to the eurozone only; because this draft plan of François' would apply to the European Union as a whole.

Peter Kažimír

This is not a matter of social policy at this moment. This is a matter of fiscal capacity and how to tackle the asymmetric shocks we mentioned. I can fully agree with François about the lack of trust and about this issue of moral hazard. This issue is always raised when talking about the future of the eurozone. We can agree that we see the architectural gap in the eurozone and that we want to close this gap at the right time with the right tools.

With regards to the collective policy, we have to agree on specific parameters in terms of how we can eliminate this risk of mis-using the schemes which are on the table now. And why not for countries out of the eurozone? Because this is about the full architecture of the eurozone as a monetary union.

Rimantas Šadžius

I think we have touched on the very nerve. Valdis, could you give us your final comments on this hugely important and very sensitive issue?

Valdis Dombrovskis

What we are discussing here is completing the economic and monetary union, which of course primarily concerns the eurozone.

Completing the EMU in an open way with the non-euro area countries

At the same time, our intention is to design initiatives in a way that is also open and transparent with the non-euro area countries, meaning that it would be possible for non-eurozone countries to join the initiative if they want. This is not always the case. We know, for example, that the banking union is also open to non euro area member states but, so far, no non-euro area member state has joined. Nevertheless, it is designed in a way that, should a member state decide to join, they would be able to do so. This should be the defining principle because completing the EMU should not be seen as a way to fragment the EU; and we should be doing this together at the level of EU 28, especially as regards the developing of the EU internal market. However, there are certain things which are specific to the euro area where we will of course concentrate on the euro area countries.

Rimantas Šadžius

François asked for a short comment. Please, François.

François Villeroy de Galhau

It is a very short one but I would like to say it quite directly. We do not have to apologise as members of the eurozone for further integration in the eurozone, provided one very important condition: that the eurozone remains open to any EU member state which would like to join, which has been the case. We always forget a very simple thing: we began the eurozone with 12 countries and we are now 19, the last one having joined last year. It remains an open club and this is very important; but this club must integrate further. If we hesitate every time we have a good project for an economic union because of the need for an open EU, we will not succeed. We do not have to apologise but we must remain open. And a stronger growth in the eurozone is an asset for all the 28 members of EU.

Rimantas Šadžius

Thank you, François. The reaction from the floor has been very clear and very expressive. Unfortunately, the time has run out and we must end this discussion.

Of course, ideas for further integration are within the eurozone but we need to bear in mind that they could influence non-eurozone member states of the European Union. That does not mean that these ideas should be rejected but rather that they should be explored further. Here, of course, I very much like Peter’s idea about the homework that should be done. I very much like the idea that the content is more important than any institutional settings.

The picture is not yet clear. We all agree that the deepening of the economic and monetary union is first and foremost an economic case. I would propose that the way forward is to incrementally do our homework and do our joint work in creating all these things that we agree upon in terms of all the new kinds of union in banking, capital markets, energy, digital and so on. Then we shall see what happens and go further.

Thank you, dear colleagues, for this productive discussion and thank you to the audience.

Glossary:
CMU - Capital Markets Union
ECB - European Central Bank
EMU - Economic and Monetary Union
ESM - European Stability Mechanism
EU - European Union
GDP - Gross Domestic Product
US - United States

Objectives of the session

The objective of the session was to define the priority actions for making the euro viable and avoiding a situation where the risk of an exit country becomes real.

This plenary session was devoted to discussing the conditions required to improve the economic governance of the euro area. Speakers were also invited to discuss how to encourage Member States to meet their fiscal and structural commitments.

Executive Summary

Completing Europe’s Economic and Monetary Union

The process of convergence needs to be restored

Monetary Union without a sufficient degree of convergence of economic policies is unlikely to be durable and could, in fact, be damaging to the European Community. According to a public decision maker, the question is how to re-launch that economic convergence, with both political steer and concrete support. According to him, the Five Presidents' Report provides good guidance. The first question is not one of revolutionary new steps, but of showing that what we have already agreed is working. 'Deepening by doing' - as the Five Presidents' Report describes the first stage - means fully implementing decisions taken. Advancing further within the existing legislative framework and streamlining its application where necessary. Only consistent implementation of the decisions already taken can provide us with the necessary credibility to advance toward Stage 2 as proposed in the Five Presidents’ Report where more far-reaching measures would be agreed upon to complete the EMU’s economic and institutional architecture.

This speaker explained that there are a number of issues which can be implemented at this stage and which do not need any institutional changes or treaty changes.

First, we need to set clear common reform priorities. This is why individual euro area member states recommendations includes a clear set of joint priorities on enhancing productivity, adjusting labour markets, addressing fiscal situations and talking about the financial sector and working out non-performing loans. The Eurogroup is benchmarking the implementation of those priorities across member states and the EU Commission is supporting strongly this approach;

Secondly, we need the engagement of all stakeholders within member states. At the beginning, the European Semester co-ordination mechanism was perceived in Member States as some department in a finance ministry sending some papers to Brussels and nothing more. Of course, this approach does not really work so what we need is that the European Semester and our common decision making priorities to become part of the national political debate. That means strongly engaging with member states and not only with governments but with social partners and other stakeholders.

A member of the Ecofin Council stressed that we can perform much better is the area of country-specific policy recommendations to identify the main economic challenges for each EU Member State. If we are really committed to these recommendations, the EU’s budget should support the respective member states to implement these recommendations. National projects which profit from financing by the European funds should be designed to implement the country-specific recommendations. The Commission needs to make this a precondition for the financing of national projects. An approach of this kind, which is based on the synergy effects between the implementation of the country-specific recommendations and the use of EU funds, would have a positive effect on the public image of the EU as an agent for active change - rather than an obstructionist. An integrated policy approach consisting of European money and structural policies would in addition facilitate clear communication of existing and future political priorities.

A “full coordination” institution in the euro area is required.

A public decision maker explained why a “full coordination“ of fiscal and structural policies was necessary and made the economic case for a stronger governance of the euro area. According to him, clearly monetary policy cannot be a substitute for economic policy coordination or the lack of reforms. And the absence of coordination has a genuine economic cost. Several studies pointed to a significant cost of non-coordination, in the order of 2 to 5%¨of GDP since the crisis.

To take the debate forward, he proposed to make three principled choices: first: making parallel progress on both domestic reforms and European coordination. This is the cornerstone of any French German agreement: to be fair, the French call for Germany to support coordination, and the German doubt about French reforms, have been and are still well-founded. This requires overcoming distrust between countries and putting both aspects under the same umbrella, namely a common institution.

Moreover, it must be recognized that institutions with a mandate are superior to rules without institutions. To bolster policy consistency and coordination, the rules of the Growth and Stability Pact should be supported by strong institutions with discretionary powers. This is why there is room for an intermediate level of integration. The speaker called it “full coordination of national policies”, a presently missing link between integration, as we have for monetary policy decision-making, and rule-based surveillance, such as it is currently the case for national fiscal policies in Europe and which is clearly lacking teeth. The highest level of policy integration would logically involve building a genuine fiscal union, as well as completing the Single Market; but that would surely require more ex ante convergence and resolution of legacies from the past. In addition to the completion of banking union, the most urgently needed part of EMU reform is to set up a strong institution to fully coordinate national fiscal and structural policies.

This approach would help to make the Euro area more than the sum of its parts. Jean Monnet famously declared that “nothing is possible without men, but nothing lasts without institutions.” The mandate of this decision-making institution must be to achieve the strongest, sustainable and balanced growth, through a decisive progress in terms of national macroeconomic policy coordination. To that effect this public decision maker shared with the audience some thoughts regarding the tasks a Finance Minister of the Euro area would have.

The tasks for a Euro Area Finance Minister

First, the Minister would be in charge of preparing the euro area-wide collective strategy to fulfil its sustainable growth mandate. It would be essential for the euro area to collectively agree on overall economic policy objectives, and on the division of tasks through the setting of individual performance targets for Member States. Nobody seriously contests that a collective strategy adding more structural reforms in some countries including France, and more fiscal expansion in others including Germany would make for a better policy mix for sustainable growth and employment in Europe.

Second, the Finance Minister would be responsible for supervising the implementation of the collective strategy, using adequate instruments to provide symmetric incentives.

Third, the Finance Minister would be responsible for implementing centralized crisis management. A Finance Minister for the euro area would naturally be in charge of overseeing European Stability Mechanism operations.

Last, while moving towards further integration, the Minister could be given the authority for managing a euro area Convergence Fund, evolving towards a Euro budget. We are touching here on the issue of a common fiscal capacity, promoted recently by Pier Carlo Padoan. As successfully done in the past, it could be built in three stages. In the first stage, Member States would be free to join. In a second stage, this budget could become a stabilisation instrument, centralising a well-defined set of policy instruments, such as a European layer of unemployment insurance. The third and final stage of fiscal integration would only be achieved if agreement can be found both on financing (direct revenue-raising capacity and common debt issuance) and on the desirable level of business cycle synchronization. This perspective would be a powerful incentive for national discipline and commitment as shown during the march to the Euro.

Further integration and democratic accountability should progress together. These institutional changes require a new Treaty. In such a context, a legitimacy-enhancing appointment process is required. In addition this euro area Finance Minister would need to be backed by a genuine Treasury administration. Last, a stronger democratic control over euro area affairs would be required. To this end, it would be appropriate to consider institutionalising a euro area format of the European Parliament. Relationships between euro area MPs and national parliaments would also need to be enhanced, through an inter-institutional agreement, or by creating dedicated commissions.

A member of the Ecofin Council stated that the first priority for Euro area Member States would be to implement their domestic homework in terms of fiscal and structural policies which is essential for economic growth and financial stability. But this is not enough. He supported fiscal integration but the priority in this respect is to agree on its content. He stressed that Fiscal sustainability and macro economic stabilisation are not mutually exclusive but rather complementary objectives to stabilise a prosperous economic environment. More is needed to protect EU economies in cases where national fiscal stabilisers are not enough to cope with asymmetric shocks, and also when the monetary policy is limited. This is particularly important when countries are making efforts to reach their fiscal targets and therefore do not have much room to use national fiscal policies for stabilisation. This is why some were advocating a fiscal capacity and a common unemployment insurance scheme. This tool would be something quite visible and understandable for others. However this tool cannot resolve all the problems. He stressed that the key priority was the homework which must be done at a national level.

Another speaker of the public authorities agreed on the fact that deepening the EMU is a necessary objective, which will become credible once a broad consensus among Member States on a way forward has been built. This the reason why the economic case to explain the need for a Euro Finance Minister has to be clearly established. He also stated that the EU Commission was currently in a broad process of consultation in the first half of this year, running events and gathering views from member states and from stakeholders in all member states. Then the Commission will summarise the feedback getting from the member states through an expert group with a view to preparing a Commission-wide paper in spring 2017 outlining the steps for Stage 2 on completing the European economic and monetary union.