

An opportunity for Europe

After Germany goes to the polls on September 24, the EU will face a watershed. It will have a potentially unique window of opportunity to decide what kind of Europe should be built and which reforms are needed to underpin it.

Several converging factors have brought about this opportunity. The outcome of the French and Dutch elections, in which Europhobic populism was defeated by pro-European parties; the commitment to Europe of Germany's main presidential candidates; the UK's imminent departure from the EU, an important member that repeatedly opposed deeper integration; Trump's presidency, which makes it even more crucial for the Union to have a strong foreign policy; and the terrorist threat, which highlights the importance of effective Europe-wide coordination, at least in issues of security and intelligence.

There's also broad consensus that further European integration is needed, especially to reinforce the single currency's institutional architecture. Over the past few years a large number of undeniably far-reaching reforms has been carried out, such as banking union and the creation of the European Stability Mechanism (ESM). But we can, and must, make further progress down this road and it is better to make a start now than to wait until circumstances force urgent action.

In the first place, banking union has helped to reduce the risk of contagion between sovereigns and banks, but this union is far from complete. There is a need for a single, Europe-wide deposit guarantee scheme with indebtedness capacity or access to a lender of last resort. And the legislative frameworks of the different countries need to be more standardised, such as in insolvency law, to foster economies of scale and encourage the creation of pan-European banks. There are also doubts regarding the effectiveness of the current bank resolution framework in the case of a hypothetical systemic crisis, especially when there is no strong central fiscal authority.

In fact, monetary and also banking union would surely be most strongly reinforced by creating a European fiscal authority. This is something Germany and France agree about. They both believe the euro area should have an Economics and Finance Ministry but differ widely as to the powers it should be granted. President Macron prefers a strong joint budget that could finance large investment projects and act as a means of macroeconomic stabilisation should perturbations affect different countries in different ways. Merkel, however, wants a ministry devoted to coordinating the fiscal policies and structural reforms of member states, with funds to reward the implementation of desired policies. Both these focuses require sovereignty to be relinquished. European institutions will therefore need greater political legitimacy.

In all likelihood, the most ambitious leap, namely political union, is still a long way off but some steps will certainly have to be taken down this road. Just how far we can go remains to be seen. Without doubt, the words of José Ortega y Gasset, written before the Second World War, are still highly relevant today: «The real situation of Europe would, then, appear to be this: its long and splendid past has brought it to a new stage of existence where everything has grown; but, at the same time, the institutions surviving from that past are dwarfed and have become an obstacle to expansion. Europe has been built up in the form of small nations. In a way, the idea and the sentiment of nationality have been her most characteristic invention. And now she finds herself obliged to exceed herself. This is the outline of the enormous drama to be staged in the coming years. Will she be able to shake off these survivals, or will she remain forever their prisoner?».

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