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WHAT WOULD A EUROPEAN FINANCE MINISTER DO? A PROPOSAL

Henrik Enderlein | *director of the Jacques Delors Institut - Berlin*

Jörg Haas | *research fellow at the Jacques Delors Institut - Berlin*

EXECUTIVE SUMMARY

The idea of a European finance minister (EU-FM) has made a comeback in the political discussion. In this paper, we sketch out in some detail what the tasks and accountability structure of such a minister could look like.

Mission: An EU-FM would act as a strong political authority safeguarding the economic and fiscal interests of the euro area as a whole, as opposed to the interests of individual member states.

Competences: The main competences of the EU-FM would be to (i) oversee the coordination of fiscal and economic policies, (ii) enforce rules in case of non-compliance, (iii) lead negotiations in a crisis context, (iv) contribute to buffering regional shocks and (v) represent the euro area in international institutions and fora.

Instruments: The EU-FM would manage a European investment budget to counter-balance asymmetric shocks and to reward reforms. She would also chair the European Monetary Fund, an improved version of the European Stability Mechanism.

Institutional ties: The EU-FM would be located at the interface of supranational and intergovernmental politics in the European Union. She would be 'double-hatted', being simultaneously a member of the Commission and President of the Eurogroup.

Democratic control: The European Council and the President of the Commission would jointly appoint the EU-FM and could force her resignation. In addition, a joint committee consisting of delegates from national parliaments and the European Parliament would scrutinise the minister's spending on investment and exercise direct democratic control over the European Monetary Fund.

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INTRODUCTION

The idea of a European finance minister has made a quite surprising comeback in recent months. The position was neither mentioned in EU member state consultations earlier this year, nor in June's "Five Presidents' Report" on completing Europe's Economic and Monetary Union (EMU)[1]. Yet over the last three months a number of prominent advocates have spoken out in its favour.

The most prominent proposals have come from the French minister of the economy, Emmanuel Macron, who proposes a common euro area treasury headed by a Commissioner who would be: "not just a euro area finance minister, but someone who allocates funding for investments or has a say in labour market policy"[2] and from Benoît Cœuré, the member of the European Central Bank's (ECB) Executive Board, reportedly with the support of ECB president Mario Draghi[3]. Cœuré stated that a European finance ministry "could be responsible for preventing economic and fiscal imbalances, managing crises in the euro area and managing the budgetary capacity envisaged by the Five Presidents' Report, as well as representing euro area governments in international economic and financial institutions"[4]. But there were also reports on Wolfgang Schäuble working on a proposal for a euro area budget under the control of a European finance minister[5].

"THE SPECIFIC TASKS AND LEGITIMATION STRUCTURES BEHIND THE TERM ARE OFTEN UNCLEAR"

While all those calls share the basic idea of a new integration step in EMU, the specific tasks and legitimation structures behind the common term "European finance minister" are often unclear. Some proposals focus on more European control, others on more European solidarity, or – put in slightly more conceptual terms – some see a need for the finance minister to allow for more "sovereignty-sharing", whereas others put the emphasis on "risk-sharing"[6].

The sovereignty-sharing approach is grounded in a rule-based logic, focusing on compliance with the EU's fiscal framework and the various coordination elements for preventing imbalances, such as the Macroeconomic Imbalances Procedure. In 2012, Wolfgang Schäuble had supported the creation of a European minister with the power to monitor national debt levels and veto member states' budgets[7]. At that time, similar proposals came from former ECB president Jean-Claude Trichet and the president of the European Stability Mechanism (ESM), Klaus Regling[8]. These proposals, based on the idea of a rule-bound "EMU supervisor", clearly require sovereignty-sharing at the European level.

Other proposals seem to aim at bringing about increased stability through more risk-sharing in the euro area. Emmanuel Macron calls for the explicit recognition that transfers are necessary for the euro to function effectively and proposes to give some discretionary power over a euro-area fiscal capacity to the European finance minister. The underlying idea is that of an active and politically mandated "EMU manager", accountable to the European Parliament and entitled to allocate a certain amount of EMU resources.

1. European Commission, "European Commission Notes ahead of the Sherpas Meetings", 2015.
   Juncker Jean-Claude, Donald Tusk, Jeroen Dijsselbloem, Mario Draghi, and Martin Schulz, "Completing Europe's Economic and Monetary Union [The Five Presidents Report]", 2015.
2. Klimm Leo, Christian Wernicke, "Refondons l'Europe," Interview with Emmanuel Macron", Süddeutsche Zeitung, 31 August 2015.
   See also Giugliano, Ferdinando, Gordon, Sarah, "Macron calls for radical reform to save euro", Financial Times, 24 September 2015.
3. "EZB-Präsident: Draghi unterstützt angeblich Forderung nach Eurofinanzminister", Spiegel Online, 28 August 2015.
4. Cœuré Benoît, "Drawing Lessons from the Crisis for the Future of the Euro Area",Speech held at Ambassadors' Week, Paris, 27 August 2015.
5. "Etat der Währungsunion: Schäuble ist offen für Eurosteuer" Spiegel Online, 25 July 2015.
6. The two concepts are discussed more in depth in Delors, Jacques, Gerhard Cromme, Henrik Enderlein, Pascal Lamy and António Vitorino, "After the Greek Deal: Three Dangers and Three Opportunities", Tribune, Jacques Delors Institute, July 2015.
7. Böll Sven, Konstantin von Hammerstein, "Perfekte Lösungen brauchen lange" Interview with Wolfgang Schäuble, Spiegel, 25 June 2012.
8. Vits Christian, and Gabi Thesing, "Trichet Calls for Euro Finance Ministry as Crisis Deepens" Bloomberg Business, 2 June 2011.
   Costa António, "É preciso um ministro das Finanças europeu?" Económico, 12 January 2015.

At first sight, there seems to be little to no overlap between the two concepts[9]. The proponents of the "sovereignty-sharing approach" would probably argue that there already is some risk-sharing through the ESM and banking union, and proponents of the "risk-sharing approach" would state that some elements of further sovereignty-sharing will have to be introduced. Yet there have been few efforts so far to make the potential link more explicit. The debate is missing a clearly spelled-out proposal that adds some detail, so that differences and areas of agreement can become more apparent.

Our paper presents such a proposal. We argue that it is possible to design a European finance minister that combines elements of the "risk-sharing" and the "sovereignty-sharing" logic. We make the attempt to sketch out in some detail what the tasks and accountability structure of an EU-FM could look like[10]. We argue the EU-FM should be "double-hatted", i.e., she should be simultaneously a member of the European Commission and chair of the Eurogroup. The EU-FM would also chair the European Monetary Fund, which should emerge out of the ESM and operate under direct democratic control (details below). The main competences of the EU-FM would be to (i) oversee the coordination of fiscal and economic policies, (ii) enforce rules in case of non-compliance, (iii) lead negotiations in a crisis context, (iv) contribute to buffering regional shocks and (v) represent the euro area in international institutions and fora.

To spell out the details of this proposal, the paper addresses three topics:

1. What competences would the EU-FM have?
2. What would the 'ministry' look like? How would it relate existing crisis prevention and crisis management instruments?
3. To whom would the EU-FM be accountable?

1. Responsibilities

"A STRONG POLITICAL AUTHORITY AS SAFEGUARD OF THE ECONOMIC AND FISCAL INTERESTS OF THE EURO AREA AS A WHOLE"

The fundamental rationale behind the creation of an EU-FM would be to create a strong political authority as safeguard of the economic and fiscal interests of the euro area *as a whole*, as opposed to the interests of individual member states. Interestingly, the institution most actively calling for such a voice has been the ECB, arguing that it needed a political counterpart in charge of overseeing member states' fiscal policy and economic policy coordination at the euro-area level[11].

Indeed, the economic arguments for having a stronger authority are manifold. First, policies pursued by one member state can lead to negative externalities that affect the rest of the euro area. To give an example, if one country runs an excessive fiscal deficit it not only risks its own ability to repay its debts. If it comes to a crash, it also imposes costs on its neighbours that have to either help in the stabilisation efforts or risk contagion. Knowing this, there is a danger that no country will pursue a sustainable path unless forced to do so under the threat of sanctions.

Second, even a monetary union that is entirely made up of rule-compliant but heterogeneous economies will not necessarily be stable. For example, even relatively small divergences in growth and inflation are magnified by the pro-cyclical effects of a common monetary policy. Once imbalances arise, they are hard to rectify by individual countries since adjustment via the nominal exchange rate is not possible. Ever larger divergences will threaten the functioning of the euro area unless the European level provides insurance and coordination.

9. Münchau Wolfgang, "Der Euro-Finanzminister darf kein Sparkommissar sein", Spiegel Online, 31 August 2015.
10. Throughout this paper, we will use the abbreviation EU-FM to refer to refer the post of a "European Finance Minister", even if a more accurate technically appropriate terminology would probably have to refer to the euro area, or the Eurogroup, or even to a possible double-hat function between Commission and Eurogroup.
11. European Central Bank, "Interview of Benoît Cœuré with Le Monde, conducted by Marie Charrel of Le Monde and published on 27 July 2015" 2015.

"THE EU-FM WOULD NEED TO HAVE FIVE MAIN RESPONSIBILITIES"

The two ideal types of EU-FM, outlined above, would approach their jobs in very different ways. A "supervising" minister would address the first vulnerability, using sanctions to ensure that no euro area country puts negative externalities on fellow member states. A "managing" minister, on the other hand, would focus on fighting imbalances, actively steering the convergence process with the help of monetary incentives and transfers. In other words, the supervisor would pursue "negative integration," while the manager would pursue "positive integration"[12].

There is no reason those two approaches cannot be combined within a framework of "risk-sharing cum sovereignty-sharing". In this framework, an EU-FM would incorporate tasks that typically belong to the finance ministry with others that in some countries fall in the remit of the ministry of the economy. Specifically, she would need to have five main responsibilities:

Oversee the coordination of fiscal and economic policies. The main task of the EU-FM would be to actively contribute to the coordination of fiscal and economic policies. There is a long list of tools and instruments, in particular the Excessive Deficit Procedure (EDP), the Stability and Growth Pact (SGP), the Macroeconomic Imbalances Procedure (MIP) and the European Semester (ES). In the past, those tools have not been used in a sufficiently pro-active manner and have consequently been unable to provide successful *ex-ante* coordination of fiscal and economic policies. We argue that this deficiency is at least partly due to the fact that the Commissioner in charge did not have enough political weight to call upon the responsibility of euro-area member states. At the same time, the Eurogroup President did not take an active part in the positioning of the European Commission on whether to take a tougher position on non-compliant member states.

Merging the positions of EU Commissioner and Eurogroup President would overcome those difficulties and create a strong voice at the level of the euro area, pushing member states to pro-actively avoid the emergence of negative externalities from their policies. At the same time, the EU-FM would have at her disposal the full set of sanctions foreseen by the SGP and the MIP (see next point), which would allow her to back-up the political authority with effective policy tools. Beyond those coordinating tasks, the EU-FM would also report on the euro-area fiscal stance – a concept that has been grossly underemphasized in recent years. In 2014, the euro area as a whole was still growing below potential, but its fiscal stance was neutral. Economically, this is a cause for concern. But strikingly, the debate focussed on the fiscal stance of member states, not on that of the area as a whole. Having an EU-FM present reports and aggregate numbers on the topic might not fix the problem immediately, but helps in asking the right questions.

Oversee and politically defend the enforcement of rules. Taking up the competences of today's Commissioner for Economic and Financial Affairs, the EU-FM would not only ensure ex-ante that member states comply with the EU's rules on public and private imbalances, but also lead the enforcement process in case the rules are breached. Many of the required tools already exist, but there are discussions about how much discretion there should be in the application of the rules. Under the current system, taking that decision is mainly up to the Commission. But the college is not the right body for such a role. Two elements are missing: (i) the democratic element, i.e., a direct participation of elected representatives from the European Parliament and national parliaments, (ii) the political ownership element, i.e., the clear and personal responsibility for enforcing or not enforcing the rules. Indeed political ownership and democratic control mechanisms are today dispersed among different institutions and governance levels. An EU-FM would improve the visibility of *ex-ante* rule monitoring and *ex-post* rule-enforcement and thus contribute to the effectiveness of EU economic governance. She would take on a leading role in the European Semester, and follow up on country-specific recommendations. She could apply some discretion as allowed by the Treaties, but would carry

12. Scharpf Fritz W., *Negative and Positive Integration in the Political Economy of European Welfare States*. In Governance in the European Union, edited by Gary Marks, 15-39. London, Thousand Oaks and New Delhi: Sage Publications, 1996.

the political responsibility for the results and would be accountable to a joint chamber composed of members of the European Parliament and members of national parliaments (see below).

Lead negotiations. Should a euro area member state need to rely on emergency credit from the ESM or a successor institution, the minister would act as an "honest broker" by leading the negotiations about adjustment programmes and monitoring progress. The negotiations with Greece showed that such an actor is needed. When the final deal was negotiated, the key actors were German chancellor Merkel and Greek Prime Minister Tsipras. What was missing, was a strong and unique "European" voice at the table, representing the interest of the euro area as a whole. When euro-area negotiations become purely intergovernmental, the single currency is systematically at risk. The interest of member states is by definition not the interest of the euro area or the European Union as a whole – and neither should it be.

"THE EU-FM WOULD BECOME THE FACE OF THE ASSISTANCE PROGRAMMES"

The EU-FM would thus become the face of the assistance programmes and would be accountable for their outcomes. The experience so far suggests that this could make her the target of much controversy. That cannot be avoided entirely, but a new framework could mitigate the conflict (see following section). Furthermore, she would have a better claim to impartiality than the alliance of national governments that stands behind the institutions formerly known as Troika.

Help buffer regional shocks. The EU-FM could also contribute to facilitating transfers to countries in a situation where they are unlikely to recover and rebalance on their own through internal devaluations and reforms alone. Today, the EU level pushes for structural adjustments. But the cost of the investment that is often needed to put such reforms into practice is carried by member states. The creation of an EU-FM would allow to bring in the missing link. With a small but flexible investment budget at her disposal, she would enable the European level to support public investment levels in times of fiscal consolidation or to contribute to the reaction to a specific asymmetric external shock[13]. She could also provide meaningful rewards in the context of significant reform efforts that help an economy adapt better to the requirements of EMU. However, those resources should not only be monetary. The EU-FM should have some discretion (at least at the level of a proposal) in allowing countries to comply in a more flexible way with European rules.

Represent the euro area. Together with the ECB President and following the traditional division of tasks between the central bank and the finance ministry, the EU-FM would represent the euro area in the relevant international institutions and fora. In some cases (e.g., in today's G7 and G20), large member states could still send their own representatives, but this should become less common in the long run. Beyond the narrowly defined institutional and legal representation of the euro area, the EU-FM would also express the aggregated interest of the entire euro area. That interest is more than the sum of its parts, and it needs its own voice.

13. Cyclical shock absorbers (e.g., a stabilisation fund based on the output gap or a European unemployment insurance) would complement these efforts. However, since they are automatic mechanisms, they cannot be part of an EU-FM's repertoire of discretionary policies.

2. Instruments: A European investment budget and a European Monetary Fund

A minister is not just defined by responsibilities, but also by instruments and resources. There are many proposals for a "euro-area fiscal capacity". But it has never been really clear what such a capacity would be about. Ideas range from a common European unemployment insurance scheme to a full-fledged spending budget. We think it is important to functionally differentiate. We thus propose to have one investment component (a "European investment budget") and one crisis fighting instrument – the European Monetary Fund, built on the ESM.

2.1. A European investment budget

The euro area lacks a flexible fiscal instrument able to steer public investment to countries or regions where it is most needed. We see two key functions for such an investment budget:

1. Contribute to counter-balancing asymmetric shocks. The European investment fund would carry out investments in a country hit by a specific shock. Those shocks could include natural disasters, or specific short-term challenges such as refugee flows. This would be very different from the current practice. Today, a member state hit by such shocks immediately asks for more flexibility on the debt and deficit criteria. This is not a good approach. Countries should not be allowed to modify the targets. Instead, the European investment fund would come to the rescue and shoulder some of the additional expenditure. This would make the system more transparent and fair. The difficult task for the EU-FM would clearly be to assess to what extent a shock can be considered to be external. But as we have seen in the past years, there is no way to find purely rule-based answers to this question. Rather, discretion and political judgment are required, but based on strong legitimacy. To give an example, an EU-FM could, explicitly and under direct democratic control, provide investment funds to Italy in the context of a massive refugee inflow. This would enable the country to keep its debt and deficit targets. We prefer this solution to some additional 'flexibility' in the application of the deficit and debt rules in Italy, with no clear political ownership behind the decision.

2. Reward reforms. The current framework's ability to encourage reforms in countries in crisis is weak, mostly for quite simple reasons. Implementing a reform agenda is notoriously difficult when the government is unable to accompany it with fiscal measures. Not only is political resistance fiercer, but there is also an economic price to be paid. A number of supply-side reforms have a negative effect on short-term GDP growth. Putting investment money at the disposal of governments committed to undertake reforms would counterbalance such effects. The current ESM-programme approach implemented through detailed MoUs between the institutions and the crisis country is based on that logic. However, the scheme is limited to countries in extreme circumstances. Why would the euro area not want to support earlier reform efforts through some accompanying investments, carried out through the European investment budget? When Germany was in fiscal difficulties in the crisis years 2003 and 2004, a financial contribution from the investment budget would have allowed it to keep investment levels high, while at the same time facilitating the Agenda 2000 ("Hartz") reforms of the Schröder government.

"WE SUGGEST THAT THE BUDGET EXCLUSIVELY FOCUS ON INVESTMENTS, BUT BROADLY DEFINED"

We suggest that the budget exclusively focus on investments, but broadly defined. Today, investments into Greek schools and hospitals would qualify in the same way as investments into the provision of high-speed data connections in Spain or energy networks in Germany (should Germany be in a severe crisis). Why European-level investment instead of simple grants? Because it is the item that, in spite of its crucial role for an economy's future, is often the first victim of member states' budget cuts. Investments channelled by the EU-FM would allow consolidation at the member state level to continue, while at the same time providing a demand and growth component from the euro-area level.

There are several options for raising the funds for the European investment budget. The first and most straightforward candidate would be a European tax. The planned reform of the EU's own resources system could offer a possibility to include such a European (or euro-area) tax earmarked for European investment[14]. A less ambitious option would be to simply reallocate existing funds, as did the Juncker plan. However, a permanent reallocation of funds to the tasks of the EU-FM would also likely meet significant political resistance. In the short term, an investment budget funded directly by new member state contributions may be the most feasible option. Henrik Enderlein and Jean Pisani-Ferry advocated such an approach in their 2014 report to the German and French governments and suggested that member states that cannot afford additional spending at the moment could contribute by earmarking future tax revenue[15].

2.2. A European Monetary Fund

As the crisis has shown, there has been a dramatic lack of institutional clarity in addressing liquidity and solvency crises in the euro area. The crisis episodes since 2010 have shown that both types of sharing were implemented at various levels, but only on an ad-hoc basis. The Greek crisis in the summer of 2015 has again demonstrated that there still are major deficiencies in the crisis-fighting toolkit of the euro area. We see five key weaknesses.

First, there is far too much ad-hoc governance in the current system. While the ESM Treaty provides a relatively clear legal framework for negotiating a program, the political responsibilities and possible escalation steps in negotiations are largely unclear. Who negotiates on behalf of the euro area? Who is mandated to draft a memorandum of understanding? Where is the democratic control mechanism in the negotiation context? The lack of clarity on such matters has resulted in a far too long series of "last minute" summits, threats and ultimatums. The euro area lacks rules and procedures that can help avoid open conflicts through negotiations embedded in effective institutions.

Second, there are too many actors involved in crisis management negotiations. This follows directly from the first point. As there are so few clear rules about who is effectively in charge of crisis negotiations, the number of players involved ranges from the Heads of State and Government via their finance ministers to the "Troika" and thus the various actors in the International Monetary Fund (IMF), the ECB, and the EU Commission, not forgetting the ESM, and sometimes even to the Economic and Financial Committee and the European Investment Bank. Ultimately, no one seems to be fully in charge. This needs to change.

Third, the responsibilities of the program countries are not clearly spelled out. Signing a Memorandum of Understanding is paramount to abandoning some sovereignty over national economic and fiscal choices. At the same time, program countries de jure, and also de facto, retain ultimate control over their national economic policy choices, in particular over the budget. In an effective crisis response framework, member states

14. The "Monti Group" is planned to present specific proposals for a reform in 2016.
15. Enderlein Henrik, and Jean Pisani-Ferry, "Reforms, Investment and Growth: An Agenda for France, Germany and Europe", Report to Sigmar Gabriel, Feder Minister for Economic Affairs and Energy and Emmanuel Macron, Minister for the Economy, Industry and Digital Affairs, 2014.

would agree ex ante to giving up some of their sovereignty if a crisis situation occurs. In exchange, they would benefit from a clear and transparent risk-sharing system and the effective creation of a lender of last resort.

Fourth, the ESM is not a real lender of last resort. As the risk-sharing logic is "several" not "joint", a serious crisis could soon put into question the underlying determination of euro-area countries to actually share the risks effectively. It is not a surprise that the worst of the euro-area crisis ended when the ECB announced its readiness to use Outright Monetary Transactions (OMT) to safeguard euro area stability and thus put forward an effective "joint and several" risk-sharing mechanism in all but name.

Fifth, the current system dramatically lacks democratic control mechanisms at the level of the euro area. While some national parliaments (in particular the German Bundestag) have obtained major veto rights in the decision over ESM programs, their underlying institutional interest is clearly national (and rightly so), not necessarily European. But where is the European or euro-area control of a bodies like the ESM, the Troika, or even the Eurogroup, which clearly has taken over quasi-executive functions in crisis management?

> "THE ESM WOULD NEED TO DEVELOP INTO A "EUROPEAN MONETARY FUND" (EMF)"

In order to fulfil its intended role as true lender of last resort with a clear political responsibility and under democratic control, the ESM would need to develop into a "European Monetary Fund" (EMF)[16]. Such an institution would be based on more transparent approach to fiscal risk-sharing and be able provide countries in sudden need of liquidity with rapid and conditional support – in exchange for a stepwise transfer of sovereignty. While it would work best as a part of the EU's institutional framework, an intergovernmental setup would also be feasible.

BOX 1 ► Tasks of a European monetary fund:

- Reward rule compliance with a "discount window"
- Provide short-term liquidity in times of crisis
- Provide long-term support in exchange for reduced budgetary sovereignty
- Provide a European financial asset.

One important difference to the ESM is that the EMF would require euro area member states to issue a small share of their debt through it (e.g., 10 percent of GDP). This debt would be guaranteed by all euro area members, the interest rate would consequently be the same for all participants. At a size of around 930 billion euros, the market for EMF debt would be comparable to that for Spanish debt or half of the German Bund market. Creating such a liquid and safe European financial asset would have a number of beneficial effects. It would work as a safeguard against convertibility risk (and thus improve monetary policy transmission, as often argued by the ECB). It would weaken the negative feedback loop between weak sovereigns and failing banks[17]. And even more importantly, it would allow the euro area to react fast and flexibly to emerging crises.

In normal times, all other debt would be issued as standard national sovereign bonds, with the usual spreads in interest rates. In crisis times, a member state suddenly facing soaring refinancing costs because of an economic crisis or a sudden change in market sentiment would be allowed to issue some additional debt through the EMF in exchange for a stepwise transfer of sovereignty. These levels would be agreed upon in advance, so that every country would know the costs and benefits of reliance on the EMF. The EU-FM would replace the institutions formerly known as the Troika in any negotiations about conditionality. This would provide for speedy

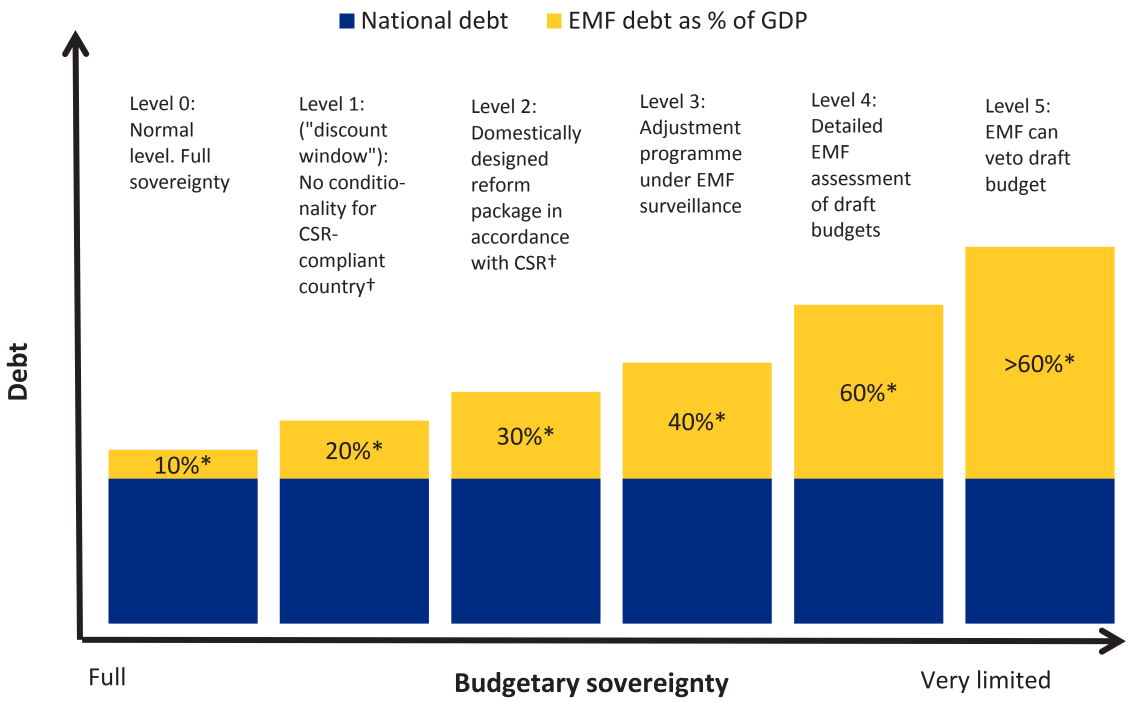
16. A similar idea is developed in detail in Enderlein Henrik, Peter Bofinger, Laurence Boone, Paul De Grauwe, Jean-Claude Piris, Jean Pisani-Ferry, Maria João Rodrigues, André Sapir, and António Vitorino, "Completing the Euro. A Road Map towards Fiscal Union in Europe", Studies & Reports No. 92, Notre Europe, June 2012 , chapter 3.
17. For a a more detailed overview of these advantages, see, e.g., Tumpel-Gugerell Gertrude, Agnès Bénassy-Quéré, Vítor Bento, Graham Bishop, Lex Hoogduin, Ján Mazák, Belén Romana, Ingrida Šimonytė, Vesa Vihriälä, and Beatrice Weder di Mauro, "Final Report of the Expert Group on Debt Redemption Fund and Eurobills", 2014, pp. 17-18.

decision-making, clear accountability and higher input legitimacy. Countries would be under no obligation to use EMF financing; they could always continue to issue national debt.

BOX 2 ► Possible levels of EMF involvement

The guiding principle should be that more financing goes hand in hand with more external control. However, the programme country would at no point lose its effective ability to choose its own destiny. If the country were to act against the agreed provisions, it would simply no longer be able to issue any more debt through the EMF and most likely enter a restructuring of its national (i.e., non-EMF) debt. In this context, the creation of a European Sovereign Debt Restructuring Mechanism could be considered. Restructuring debt would not necessarily imply an exit from the euro area.

Figure 1 ► EMF involvement and budgetary sovereignty



* Figures for illustrative puroposes only
† CSR = Country-specific recommendations

Source: Own representation, based on Enderlein et al. 2012

3. Democratic control and institutional ties

The tasks of an EU-FM would lie at the interface of supranational and intergovernmental politics in the European Union. In order to work successfully, she would depend on the backing and resources of both the EU member states and the EU Commission. It would therefore be logical to create a "double-hatted" EU-FM, similar to the post of High Representative for Foreign Affairs.

The minister would be simultaneously a member (possibly even vice president) of the Commission and President of the Eurogroup. The EU-FM could also chair the ECOFIN Council. In analogy to the High Representative of the Union for Foreign Affairs, the European Council would appoint the EU-FM "acting by a qualified majority, with the agreement of the President of the Commission"[18].

"THIS COMMITTEE WOULD SCRUTINISE THE MINISTER'S SPENDING ON INVESTMENT AND EXERCISE DEMOCRATIC CONTROL OVER THE EMF"

Admittedly, many of the ministers' tasks would only be relevant to the euro area. But all EU member states, except for the UK and Denmark are obliged to join the currency union in the medium term. As of today, there are only seven EU member states without a derogation that are not yet members of the currency union. Simultaneous membership in the EU and the euro area member is the rule, not the exception. The economic governance of the European Union should finally take this into account. In the medium term, it might even worthwhile to consider whether the distinction between Eurogroup and ECOFIN Council is still warranted. In any case, ensuring consistency by completely integrating the post into the EU framework seems superior to reinforcing the intergovernmental parallel architecture that has grown around the ESM.

There can be no doubt that an EU-FM's powers would be far-reaching. She would therefore need to be subject to appropriate democratic control. The straightforward choice would be the European Parliament as the natural check on European executive power. However, the EMF's actions would have a direct impact on national budgets. It would likely help acceptance in Member States (and might alleviate constitutional concerns) to include national parliaments in the process. They could form a joint committee with representatives of the European Parliament, possibly consisting of two delegates from each national parliament and half the number of MEPs.

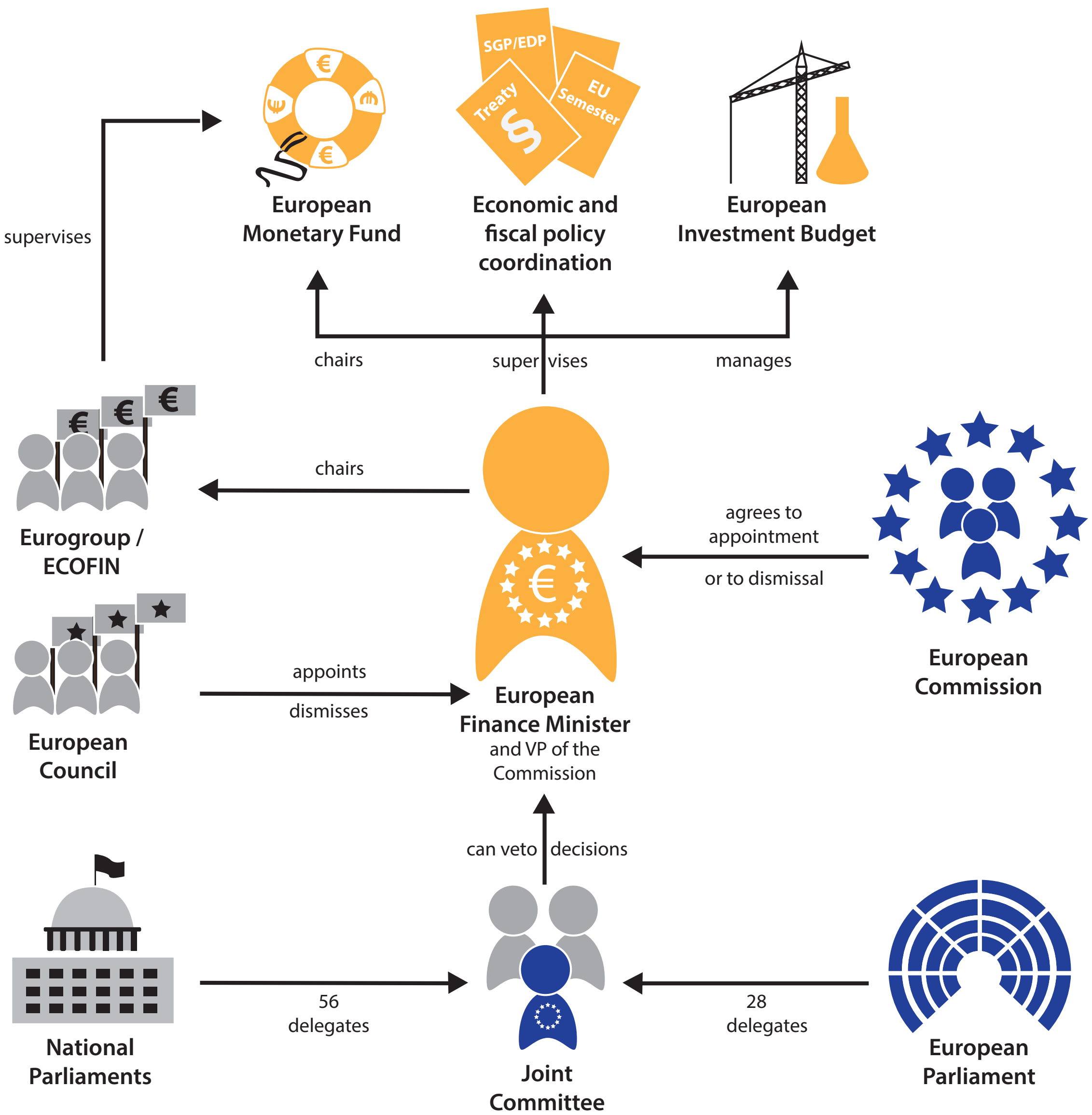
This committee would scrutinise the minister's spending on investment. But it would also exercise direct democratic control over the EMF. Whether and how this would lead to a change in the structure of the Board of Governors of today's ESM (which comprises representatives of the euro area member state finance ministries), and thus reduce the EU's reliance on pure "executive federalism" would have to be discussed. It is evident that the potentially far-reaching financial implications of EMF decisions would still require some kind of direct decision-making involving the member states. But one could look into qualified majority voting in the EMF board and/or a co-decision procedure with the joint EP/NP committee.

The traditional legislative organs of the EU would also act as a check on the minister's power. Since the EU-FM would be part of the European Commission, the European Parliament could force her resignation[19]. As a double hat, the term could also be ended by the Council[20].

Overall, the framework of action and control in which an EU-FM would be embedded would look as follows:

18. For the appointment procedure of the High Representative, see article 18(1) of the Treaty on European Union (TEU). On the election of the Eurogroup President under current rules, see Protocol 14 article 2 of the Treaty on the Functioning of the European Union (TFEU).
19. See article 234 TFEU.
20. See article 18 TEU for the procedure in the case of the High Representative for Foreign Affairs

Figure 2 ► Institutional ties and democratic control of the European Finance Minister.



Source: Enderlein and Haas (2015). What would a European Finance Minister do?

Illustration: Cinthya Nataly Haas-Arana © Jacques Delors Institut – Berlin

CONCLUSION

Creating an EU-FM who would supervise fiscal and economic policy coordination, manage a European investment budget and a chair a democratically controlled EMF as lender of last resort would be beneficial in several regards.

- Acceptance. The person in charge would consider the interest of the entire euro area, not that of any one country in particular. This applies especially to crisis management, since a group of creditor countries deciding on policy conditionality for a group of debtor countries will naturally heighten concerns over sovereignty and fairness in the latter group. Subordinating to peers is not the same as subordinating to a quasi-federal level.

- Clarity. Detailed EMF rules reduce uncertainty on the markets and ensure that all countries know the cost of relying on euro area support from the beginning. As the recent example of Greece has shown, under today's ESM framework, creditor countries feel that they have insufficient control and debtor countries feel that the conditions imposed on them are arbitrary and excessively intrusive.

- Resilience. If public investment is used to counteract cyclical slumps and to promote reforms, imbalances are less likely to arise, making euro area economies less vulnerable to crises. Additionally, EMF debt would constitute a liquid and very safe asset suitable as core capital on banks' balance sheets. This would make the European banking system less reliant on individual countries' sovereign debt and less vulnerable to sudden changes in their valuation.

- Speed. The EU-FM would have the mandate and resources to react quickly to an emergency situation, much in the way the IMF's managing director does today. She would be able to start negotiations quickly, clearly communicate the conditions for assistance, strike deals and offer rewards where necessary. This would help shorten periods of uncertainty that are very costly in terms of economic output and political capital.

- Accountability. An EU-FM controlled by a committee of national and European parliamentarians would enjoy adequate input legitimacy and could directly be held accountable for her actions, unlike the institutions formerly known as the Troika.

The current debate about a European finance minister is an opportunity to address weaknesses in the euro area's governance. Such a minister would need to be at the same time a "supervisor", ensuring the compliance of euro area member states, and a "manager" who actively counteracts destabilising dynamics in the currency union.

Creating an EU-FM at the helm of a European Monetary Fund and providing her with an investment budget would be one promising way of coping with this challenge. A well-designed EMF could ensure an adequate balance between risk-sharing and sovereignty-sharing. The budget could be used as a device for reform and convergence among euro area countries. The EU-FM could coordinate the use of the two instruments for maximum effect. For example, she could tackle a developing crisis by simultaneously approving the additional issuance of EMF debt and providing investment funds. The proposed governance structure would provide a high degree of accountability. It would ensure that spending decisions are scrutinised and it would address concerns about the unchecked power of the former Troika while limiting moral hazard.

The new post would yield even greater benefits if it was combined with further institutional reforms. For example, a euro area system of competitiveness councils[21] would strengthen the EU-FM's capacity to coordinate economic policies. Also, any step towards a European insolvency regime would help address concerns that EU crisis management could undermine the ability of national constituencies to influence crucial decisions. Rules on debt restructuring would provide countries in distress with a real choice between solving the debt crisis through insolvency and accepting a bailout in exchange for some transfer of sovereignty.

"OUR PROPOSAL IS FAR-REACHING. YET, IT IS STILL INCOMPLETE"

There can be no doubt that our proposal is far-reaching. Yet, it is still incomplete. The architecture we have tried to sketch out needs significant further work and political debate. It is clear, that any solution coming close to our proposal would require a change of the European Treaties. It is therefore not a concept for tomorrow, but one for the time after the British referendum in 2016 and the French and German elections in 2017.

In the meantime, however, this blueprint can serve as a starting point for more detailed legal and technical discussions. Concerns over future verdicts by Germany's Bundesverfassungsgericht or other constitutional courts on the transfer of sovereignty should be no reason to hold back ideas such as ours. It is important to spell out ideas as clearly as possible before looking into their constitutional implications.

What really matters today is to push forward the discussion on how to arrive at increased risk-sharing and increased sovereignty-sharing within a more effective governance framework in the euro area. The recent proposals on the European finance minister are an excellent starting point for that debate.

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NOTRE EUROPE
JACQUES DELORS INSTITUTE

Hertie School of Governance

Pariser Platz 6, D – 10117 Berlin
19 rue de Milan, F – 75009 Paris
office@delorsinstitut.de
www.delorsintitut.de