IV. Institutional Reforms

Section prepared by Martina Krobath and Jakub Wtorek

This section focusses on how the institutional architecture of the economic and monetary union (EMU) evolved from the launch of the euro until mid-2019. While first attempts to build a monetary union in Europe can be traced back to the end of the 1960s, the basis for the EMU was set with the Delors report of 1989. During the first years of the EMU, the focus was on establishing the foundations of the European Central Bank and the fiscal surveillance framework. However, this focus on monetary and budgetary developments meant that structural differences between EU Member States left them vulnerable to very large macroeconomic imbalances, exposing the euro area to the economic and financial crisis, which started in 2008. The EMU's institutional architecture became stronger as a result of lessons learnt during the crisis. However, it also became more complex and increasingly subject to intergovernmental solutions and new institutions that were not accountable at EU level. In addition, the rules-based approach to governance has revealed its limitations in delivering a symmetric adjustment and achieving a proper policy mix. This creates potential tensions in the single market area and impedes the international role of the euro. To build a more resilient EMU governance, it could be considered to rebalance it towards stronger institutions — for instance through a representative for economic affairs supported by a treasury — and more effective market discipline to complement the rules-based approach. ([151])

IV.1. Institutional design of the EMU at its inception

IV.1.1. First steps toward policy coordination since the 1960s

When the European Economic Community was founded by the Treaty of Rome in 1957, Member States focussed on building a common market for trade and a customs union. The Treaty's provisions on monetary policy were broad and limited in scope, and the idea of a single currency had not yet been conceived. ([152]) Over time, it became clear that closer economic and monetary coordination was needed for the internal market to flourish. ([153]) In 1969, the communiqué of the Hague summit of heads of state or government proposed to create an economic and monetary union strengthening the European Parliament's budgetary powers and to discuss how to directly elect its leaders. In 1970, as a follow-up, the Werner report recommended to irreversibly fix parity rates, centralise the national macroeconomic policies and allow the free movement of capital. However, it fell short of proposing a single currency or a central bank.

Some form of exchange rate coordination was tested already in the beginning of the 1970s. With the collapse of the Bretton Woods system of fixed exchange rates and the introduction of a peg of major currencies to the US dollar in 1971, European economies could no longer rely on the stability of the international monetary order. The so-called "snake in the tunnel" of 1972 was meant to organise a joint float of European currencies against the dollar, while limiting the extent of fluctuations among the participating currencies. However, this process of integration lost momentum in the mid-1970s because of currency instability on international markets and the pressure of divergent national policy responses to the challenge of 'stagflation'.

The European Monetary Cooperation Fund (EMCF) was established in 1973 to support exchange rate coordination. The Fund was run by national central banks. Its primary aim was to ensure that the 'currency snake' worked properly, but it also had some other tasks. In particular, it was in charge of the administration of short-term financing and settlements between central banks, and of monitoring interventions in Community currencies on the exchange markets. From 1976, the Fund was also responsible for the administration of Community loans to support the

([151]) This section represents the author's views and not necessarily those of the European Commission. The authors wish to thank Zenon Kontolemis, Gabriele Giudice, Eric Meyermans, Reinhard Felke and two anonymous reviewers for useful comments.

([152]) See, for instance, Ungerer, H. (1997), A concise history of European monetary integration: from EPU to EMU, Quorum Books.

([153]) See, for instance, European Commission (2008), 'EMU@10. Successes and challenges after ten years of Economic and Monetary Union', European Economy 2/2008.

balance of payments of selected Member States. ([154])

The process of monetary integration was relaunched in 1979, with the creation of the European monetary system (EMS), with the European currency unit (ECU) at its centre. The EMS consisted of an exchange rate mechanism (ERM), which obliged central banks to keep their national currency within a range of plus or minus 2.25% in a network of agreed-upon bilateral exchange rates. ([155]) From 1979, the EMCF carried out all the tasks related to the creation and use of ECUs. The Fund was dissolved on 1 January 1994, when its functions were taken over by the European Monetary Institute, the forerunner of the European Central Bank (ECB). ([156])

IV.1.2. The policymaking consensus on the rules-based approach that prevailed in the 1980s

Overall, the EMS ran smoothly in the first 5 years against a background of international turbulence following the oil price shocks of the late 1979s and large fluctuations in the value of the dollar. Although by March 1983 seven realignments of central rates had been necessary ([157]), they did not threaten the credibility of the EMS since decisions were taken by mutual consent and were carefully managed. ([158]) Nevertheless, economic developments in participating countries continued to diverge strongly with only a modest reduction in inflation differentials. ([159])

Because of its relative strength and the low inflation policies of the Bundesbank, the Deutsche mark was a de facto anchor of the EMS. EMS countries started to adopt anti-inflationary policies and as a result ([160]) inflation rates converged. By the mid-80s all EMS countries had only single-digit inflation rates, and the need for overall exchange rate adjustments decreased. ([161]) Overall volatility of nominal and real exchange rates has fallen since 1979. ([162]) In 1985, the success of the EMS in promoting monetary stability and increasing economic integration led to the adoption of the single market programme. This was embodied in the Single European Act – the first significant revision of the Treaty of Rome.

While further strengthening economic interdependence between member countries, the single market was also expected to reduce the room of manoeuvre for independent economic policy. This was acknowledged in the 1989 Delors report – the basis for the EMU. ([163]) The report recognised the impossible trinity of Mundell, and the 'inconsistent quartet' of Padoa-Schioppa, according to which it is impossible to reconcile free trade, full capital mobility, fixed exchange rates and national autonomy of monetary policy. By enlarging Mundell's approach, Padoa-Schioppa made a strong connection between the single market and monetary integration arguing that the single market could not continue to exist without a common currency. ([164])

It was also argued that trade integration would help the single currency area to eventually satisfy endogenously the criteria of the optimum currency area. ([165]) By spurring the mobility of factors, the single market together with lack of exchange rate instrument in a single currency was expected to translate into more pressures for wage and price discipline at national level. ([166])

The Delors report also acknowledged that the move towards an EMU represented a quantum leap, which could significantly increase economic welfare. The report suggested that a certain degree of economic convergence was needed before

([154]) https://www.ecb.europa.eu/ecb/access_to_documents/archives/emcf/html/index.en.html
([155]) See, for instance, Scharpf, F. (2018), 'International Monetary Regimes and the German Model', Max Planck Institute for Study of Societies, MPIfG Discussion Paper 18/1.
([156]) See, for instance, Ungerer, 1997, *op. cit.*
([157]) See, for instance, Ungerer, 1997, *op. cit.*
([158]) See, for instance, Commission of the European Communities (1983), The European Monetary System, European File 4/83.
([159]) See, for instance, Kleinheyer, N. and D. Simmert (1984), 'The European Monetary System Five Years On: Achievements and Prospects'
([160]) See, for instance, Ungerer, 1997, *op. cit.*
([161]) See, for instance, Höpner, M. and A. Spielau (2017), 'Better Than the Euro? The European Monetary System (1979-1998)', *New Political Economy*, DOI:10.1080/13563467.2017.1370443
([162]) See for instance, McDonald, F. and G. Zis (1989), 'The European Monetary System: Towards 1992 and beyond', *Journal of Common Market Studies,* Vol. XXVII, No. 3, pp. 183-202.
([163]) See, for instance, Enderlein, H. and E. Rubio (2014), '25 Years After the Delors Report: Which Lessons for Economic and Monetary Union?', Notre Europe – Jacques Delors Institute.
([164]) See, for instance, Maes, I. (2012), 'Tommaso Padoa-Schioppa and the origins of the euro', National Bank of Belgium Working Paper Document No 222.
([165]) See, for instance, Frankel, J. and A. Rose (1998), 'The Endogeneity of the Optimum Currency Area Criteria', *Economic Journal*, Vol.108, No. 449, pp. 1009-1025.
([166]) See, for instance, Enderlein and Rubio, *op.cit*.

reaching the last stage of EMU, but did not mention explicit convergence conditions. After endorsement by the European Council, the report set the basis for the provisions on the EMU in the Maastricht Treaty of 1992. The Treaty diverged from the report somewhat — for instance by shifting the emphasis from real to nominal convergence, and by setting the convergence criteria. However, in line with the report, it formally established three stages of adoption of the single currency.

Geopolitical developments following the fall of the Berlin wall further strengthened the motivation to establish the monetary union. With the commitment to the free movement of capital as of 1994, and the exchange rates fixed within the ERM bandwidth, central banks lost their ability to pursue monetary policy independent from the Bundesbank of the 'anchor currency'. The German reunification — where for political reasons East German cash holdings, wages and bank accounts were converted at a highly overvalued exchange rate — led to a rise in consumer demand for Western German products and a spike in inflation. In response, in 1992 the Bundesbank considerably tightened its monetary policy and forced other central banks to follow its example if they wanted to stay in the system (167) leading to contractionary policies throughout Europe. Furthermore, the main EU economies experienced a recession. The EMS was exposed to a series of speculative attacks triggered by investors who lost faith in the overall credibility of the ERM. The situation was further amplified by the negative result of the referendum on the Maastricht Treaty in Denmark. (168) Several member countries, including the UK, had to withdraw from the ERM, after which a new wider currency fluctuation bandwidth was established.

The policymaking consensus that prevailed in the 1980s influenced the institutional setting of the EMU. At the time, macroeconomic stability was considered to be an overarching goal. In this context, an independent monetary policy was thought to be a credible way of bringing down inflation and keeping output close to its full potential. Excessive government deficits and monetary financing of government deficits would have to be banned, in order to avoid fiscal dominance and possible bailouts. (169) The clear emphasis on the sustainability of public finances reflected the prevailing consensus that automatic stabilisers should be the primary tool for countercyclical policy, while discretionary fiscal policy was regarded with suspicion. (170) The economic thinking of the time was strongly influenced by research suggesting that discretionary policy would not typically maximise the social objective function: because of the time inconsistency problem, policy rules would be a better means of improving economic performance. (171) This resulted in an architecture where the achievement of the euro area macroeconomic (and in particular fiscal) objectives was relying on decentralised national fiscal policies guided by rules-based framework of coordination and control, rather than on common institutions endowed with discretionary powers.

IV.1.3. The foundations of the EMU governance system as laid down in the Maastricht Treaty

There are two different regimes inherent in the economic constitution in the Maastricht Treaty: the intergovernmental and the supranational. (172) The initial model of governance of the EMU was based on the centralisation of monetary policy and on decentralised economic and fiscal policies. To tackle the time inconsistency problem, the Maastricht Treaty delegated monetary policy governance to the independent ECB. It also established the European System of Central Banks to ensure sovereignty of national central banks in policy decisions. The ECB's main objective was to maintain price stability. To enhance the credibility of the single currency, the ECB was modelled on the German Bundesbank. Economic policy remained a national competence, with policy makers paying particular attention to coordinating

(167) See, for instance, Scharpf, 2018, *op. cit.*

(168) See, for instance, Sotiropoulos, D. (2012), 'Revisiting the 1992-93 EMS crisis in the context of international political economy', Kingston University London, *Economics Discussion Paper* 2012-7.

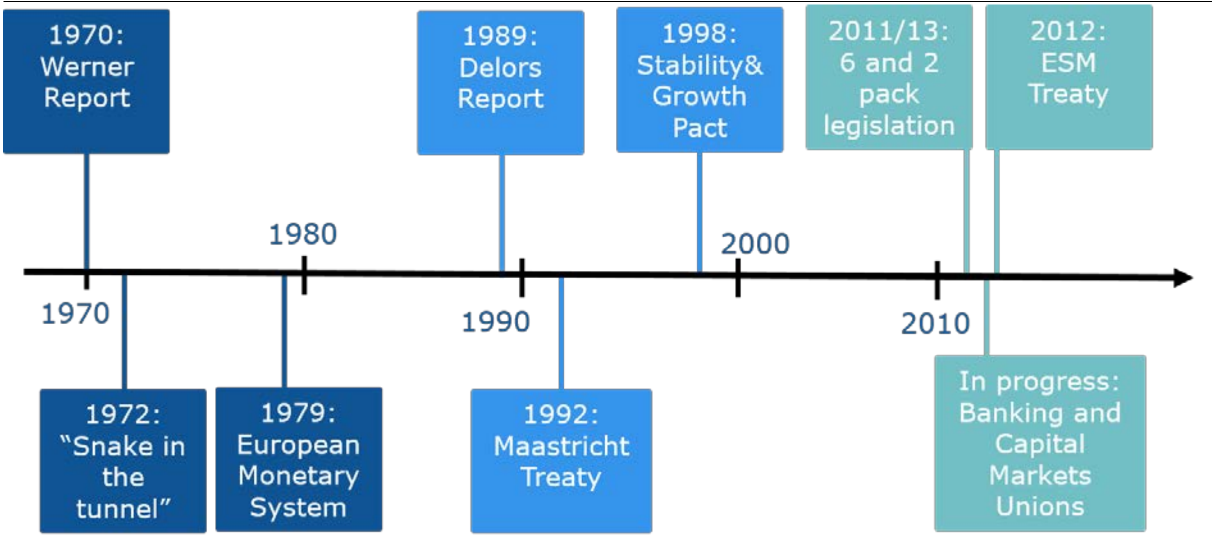
(169) See, for instance, Sargent, T. and N. Wallace (1981), 'Some Unpleasant Monetarist Arithmetic', Federal Reserve Bank of Minneapolis Review 5, pp. 1-17.

(170) See, for instance, Buti, M., 'Fiscal Policy in the European Economic and Monetary Union: An Evolving View', published in Blanchard, O. and L. Summers (eds. 2019), *Evolution or Revolution?, Rethinking macroeconomic policy after the great recession*, Peterson Institute international Economics.

(171) See, for instance, Kydland, F. and E. Prescott (1977), 'Rules Rather than Discretion: The Inconsistency of Optimal Plans', *Journal of Political Economy*, Vol. 85, No. 3, pp. 473-492.

(172) See, for instance, Piattoni, S. (2017), "The European Union between Intergovernmentalism and 'Shared and Responsible Sovereignty': The Haptic Potential of EMU's Institutional Architecture (The Government and Opposition/Leonard Schapiro Lecture, 2016)",

Graph V.1: **History of the Economic and Monetary Union**



Source: European Commission

budgetary policies and to tackling excessive deficits. This is in line with Articles 5 and 121 of the Treaty on the Functioning of the EU, according to which Member States should coordinate their economic policies, and national economic and fiscal policies should be aligned with EU policy goals — but without any legally binding enforcement mechanism. (173) The system of economic governance is thus limited by constitutions of Member States, and political accountability to national parliaments.

Fiscal policy goals were supposed to be achieved under a rules-based system. As explained in the second section "Fiscal Policy", to enforce the deficit and debt limits established by the Maastricht Treaty, the Stability and Growth Pact was agreed, and a set of preventive and corrective rules entered into force in 1998 and 1999. However, they failed to correct some policy errors, and they lacked ownership by Member States. In 2005, the Pact was reformed to address some criticisms such as a long-term objective of no debt (implied by a balanced medium-term budgetary objective), the disincentive to carry out pension reforms and the need to correct any fiscal slippage in only 1 year. To better consider individual national circumstances and to enable the correcting of the effects of economic cycle, a major role was assigned to the structural balance indicator. This first revision increased the Pact's flexibility, but the reform was not intended to increase market discipline. The 'no-bailout' principle enshrined in the Treaty on the Functioning of the EU was supposed to have a sufficient disciplinary effect.

The Eurogroup was created in 1998 to facilitate coordination between euro area Member States and to complement the Economic and Financial Affairs (ECOFIN) Council. The roles of the ECOFIN Council and the Eurogroup, and the distinction between euro and non-euro area Member States, have been clearly delineated from the beginning. The ECOFIN Council plays a central role in the economic decision making of the EU. It formally votes on decisions related to the EU or the euro area. As an informal body of ministers of finance of the Member States whose currency is the euro, the Eurogroup was originally intended as a temporary arrangement. It was established to promote conditions for stronger economic growth in the EU and, to that end, to develop ever-closer coordination of economic and fiscal policies within the euro area. In 2009, however, the Eurogroup received a treaty-based role under the Lisbon Treaty. The Lisbon Treaty also amended voting rules in the ECOFIN configuration on matters affecting the euro area, with only Eurogroup members allowed to vote. These measures strengthened the coordination and surveillance of budgetary discipline (for instance voting on the excessive deficit procedure for a euro area Member

(173) See, for instance, Repasi, R. (2015), Economic Governance. Introductory Statement, European Research Centre for Economic and Financial Governance.

State), and economic policy guidelines for the euro area Member States (Pisani-Ferry et al., 2012). (174)

IV.2. Reforms to strengthen the integrity of the single currency introduced in the wake of the financial and sovereign debt crisis

The financial and sovereign debt crisis of 2008-2013 revealed various shortcomings in the governance of the EMU. The crisis led to a recognition that for individual countries participation in the EMU is more demanding than initially perceived, and that a high level of economic, financial and fiscal spill overs in a currency union requires stronger integration. In particular, mechanisms to deal with private sector imbalances, feedback loops between the banking sector and real economy, or tools for crisis management were largely missing. The crisis also raised questions on whether tasks should be attributed at EU or national level. As a result, several reforms were adopted to make the EMU more resilient.

IV.2.1. The experience of the first years of the EMU

Heterogeneity in the euro area was much greater than thought before the crisis. With hindsight, the Delors report was overly optimistic on wage and price flexibilities in a monetary union as it assumed that a higher level of price competition in the internal market and increasing capital mobility would promote convergence and prevent significant imbalances. Instead, as explained in the previous section, the first decade of EMU showed that structural convergence is not necessarily a by-product of nominal and real convergence. (175) Real convergence largely coincided with structural divergence, with the economies of the centre relying on exports and tradeable activities, while the economies of countries on the periphery were increasingly dominated by non-tradeable sectors and affected by loss of competitiveness reflected by growing current account deficits. The financial crisis was followed by the reversal of these large current account deficits, in combination with a protracted deleveraging and recessions in deficit countries, while current account surpluses grew and remained persistent in some large economies. (176)

The Delors' report and the Maastricht Treaty also partially overlooked the macro-financial side of monetary union and did not set up supranational supervision and resolution authorities. The risks of financial market instability and the possibility of sudden stops in capital flows were largely neglected. The report did not analyse the financial implications of setting up a single currency or mention the challenges of ensuring financial stability in a monetary union. It was assumed that within a monetary union there could be no balance of payment crisis. (177) As financial systems were much less developed and globalised in the late 1980s than they are today, some of the euro area fragilities revealed by the crisis could not be predicted at the time of the Delors report. For instance, contrary to expectations, the process of financial integration was uneven. The interbank market became highly integrated, thus increasing the risk of contagion, while retail banking, bonds and equity markets remained fragmented along national lines, resulting in negative bank-sovereign feedback loops. However, the decision to maintain a national approach to banking supervision and resolution was not a result of cognitive gaps, but of opposition by central bank governors to a centralised approach. (178)

IV.2.2. The EMU institutions and reforms in the wake of the crisis

The recent economic and financial crisis led to a considerable improvement in the EMU governance framework. After the first financial support programme to Greece in 2010, which included providing bilateral loans under the Greek Loan Facility, the crisis triggered some deep institutional reforms that aimed to restore and later safeguard financial stability. The European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) were created to provide financial assistance to euro area countries experiencing or threatened by severe financing problems. As a temporary mechanism, the EFSF has provided financial assistance to Ireland,

(174) See, for instance, Pisani-Ferry, J., Sapir, A. and G. Wolff (2012), 'The Messy Rebuilding of Europe', *Bruegel Policy Brief* 2012/01.
(175) See, for instance, Buti, M. and A. Turrini (2015), 'Three Waves of Convergence. Can Eurozone Countries Start Growing Together Again?', *VoxEU*, 17 April.
(176) For more details, see the section on 'Imbalances and Adjustment' in this Quarterly Report on the Euro Area.
(177) See, for instance, Pisany-Ferry, P., Sapir, A. and G. Wolff (2013), 'EU-IMF assistance to euro-area countries: an early assessment', *Bruegel Blueprint Series*, Volume XIX.
(178) See, for instance, Enderlein and Rubio, *op. cit.*

Portugal and Greece. The assistance was financed through the issuance of EFSF bonds and other debt instruments on the capital markets. (179) Further financial assistance to Spain, Cyprus and Greece was provided by the ESM, which was created in 2012 as a permanent mechanism based on an international treaty not under EU law with a maximum lending capacity of EUR 500 billion.

The first section "Financial Union Integration and Stability" presents policy response to the crisis in the area of the banking sector, the banking union, and the capital markets union (CMU). From the point of view of institutional reforms, main recent achievements were the setting up of the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM), and the establishment of the European system of financial supervision, which is a decentralised, multi-layered system centred around three European supervisory authorities (ESAs): (i) the European Banking Authority (EBA); (ii) the European Insurance and Occupational Pensions Authority; and (iii) the European Securities and Markets Authority as well as the European Systemic Risk Board and national supervisors (see the first section). Decisive steps have also been taken in the area of the CMU to make it easier for non-financial corporations to access capital and for households to invest their money in new ways. As the International Monetary Fund (Bhatia et al., 2019)(180) noted in a recent report, the CMU would complement the banking union and would help to increase diversity in financing. A CMU would increase private cross-border risk sharing and could therefore support convergence, growth and shock absorption.

A task force of finance ministers assessed the economic and governance framework in 2010 (181) and identified a number of shortcomings. This led to improvements being made in the macroeconomic and fiscal surveillance of Member States and to common institutions being strengthened. For example, the European Semester and macroeconomic imbalance procedure were introduced and the preventive and corrective arms of the Stability and Growth Pact were strengthened ('six-pack' and 'two-pack' reforms, see the section "Imbalances and Adjustment"). The European Commission's role in enforcing fiscal rules has been strengthened by making the implementation of the Stability and Growth Pact more flexible and by revising the voting majorities in the Council required for rejecting of Commission proposals (see the section "Fiscal Policy"). The newly created European Fiscal Board helps evaluate the implementation of EU fiscal rules. National ownership of the fiscal framework was also bolstered in several ways. National fiscal frameworks were strengthened by setting mandatory requirements at national level in the areas of accounting, statistics, forecasts, fiscal rules monitored by independent bodies, and transparency. (182)

More attention was also paid to promoting the convergence of economic outcomes, for example by focusing on how to ensure appropriate wage increases and by monitoring other factors that drive inflation and competitiveness. This is because Member States have different institutional capacities to control wage increases and prevent wage-push inflation, or diverging regulation of product markets (e.g. different degree of independence and strength of national competition authorities). Meanwhile, leaving labour and product market policies in a monetary union with no coordination could prevent structural convergence. This is one reason why national productivity boards were set up in euro area Member States, to promote policies that: support innovation, increase skills, reduce labour and product market rigidities and allow a better allocation of resources. Strong institutions and processes help to align wage increases and price and productivity developments, and therefore limit negative spill overs and imbalances within the monetary union (Wieser, 2018). (183)

IV.3. Remaining weaknesses: asymmetric adjustment and fragmentation

The reforms adopted in reaction to the crisis helped to fill in some gaps in the architecture of the EMU, both at European and national levels. Nevertheless, the euro area continues to be financially vulnerable due to limited private sector risk sharing and the fact that the public safety net

(179) More details at https://www.esm.europa.eu/efsf-overview

(180) See, for instance, Bhatia, A., Mitra, S., Weber A., Aiyar, S., Antoun de Almeida, L., Cuervo, C., Santos, A. and T. Gudmundsson, (2019), 'A Capital Market Union for Europe', *IMF Staff Discussion Note*, SDN/19/07, September.

(181) See https://www.consilium.europa.eu/media/27405/117236.pdf

(182) See, for instance, Buti, 2019, *op. cit.*

(183) See, for instance, Wieser, T. (2018), 'Deepening of EMU: some topical considerations', in Allen, F., Carletti, E., and M. Gulati (eds. 2018), *Institutions and the crisis*, European University Institute.

for banks is still primarily at national level, which creates a risk of flight to safety and contagion. The incomplete banking union and fragmented capital markets prevent the euro area from achieving full integration, which would boost both long-term growth and stability. Asymmetries in macroeconomic policy allocations leave the euro area exposed to the lasting effects of cyclical developments. However, progress is difficult when there are deep political divisions among Member States and populist and nationalist movements. ([184]) Furthermore, the current fiscal policy system is still based on national preferences and does not take sufficient account of country spill overs and the interests of the euro area as a whole. ([185])

IV.3.1. An inappropriate policy mix as result of the EMU set-up

The EMU can still face financial fragility, as stabilisation and recovery have relied largely on the ECB's monetary easing policy. The role of the ECB in fighting contagion following the crisis cannot be overstated, while the 'whatever it takes' intervention was also facilitated by the major steps governments took to reinforce the integrity of the single currency. However, the ability of the ECB to fight aggregate shocks was at times impaired by the fragmentation of financial markets and the uneven transmission of monetary policy across Member States. ([186]) Renewed difficulties in the sovereign debt market — possibly following a rise of interest rates ([187]) — could spell problems for the financial system and the real economy. Deposit insurance and other public safety nets for banks remain at national level, creating scope for contagion and fragmentation, which could turn banking sector fragility into sovereign debt distress. The ECB's capacity to protect against another crisis might be limited, while fiscal policy remains constrained. ([188])

Because of the institutional set-up of the EMU, a symmetric adjustment in the euro area is now almost impossible. Fourteen French and German economists have criticised the euro area for its inability to deal with countries' loss of market access other than through crisis loans conditional on harsh fiscal adjustment. ([189]) The most heavily indebted economies find it more difficult to reduce debt and regain competitiveness. In a low inflation environment, these economies cannot both reduce their public and external debt denominated in euros (which would be helped by higher inflation) and regain competitiveness (which requires lower nominal wage growth and inflation than in the rest of the EMU without running the risk of falling into debt deflation). ([190]) Meanwhile, these economies' growth problems are intensified by higher real interest rates, which are driven by higher nominal interest rate spreads (driven by weaker sovereign rating and at times by investors' behaviour not supported by fundamentals) and lower inflation. ([191])

It is very difficult to have a proper macroeconomic policy mix for the euro area, especially during economic downturns. ([192]) Budgetary policy is primarily national competence, and governments are accountable to their national parliaments. The euro area fiscal stance is a result of an aggregation of national positions and can be only steered via economic coordination. For fiscal policies, the current asymmetric nature of the Stability and Growth Pact and the Macroeconomic Imbalances Procedure – which prioritise correcting fiscal (or external) deficits over handling significant surpluses properly – is exacerbated by the absence of a central fiscal stabilisation capacity. It is therefore impossible to simultaneously have an appropriate fiscal stance for the euro area as a whole, and an optimal distribution of the fiscal effort that gets the right balance between stabilisation and sustainability at national level. When national fiscal

([184]) See, for instance, Bénassy-Quéré, A., Brunnermeier, M., Enderlein, H., Fahri, E., Fuest, C., Gourinchas, P.-O., Martin, P., Pisani-Ferry, J., Rey, H., Schnabel, I., Véron, N., Weder di Mauro, B., and J. Zettelmeyer (2018), 'Reconciling risk-sharing with market discipline: A constructive approach to euro area reform', *Policy Insight* No. 91, Centre for Economic Policy Research.

([185]) See, for instance, Wolff, G. (2017) 'Beyond the Juncker and Schaeuble visions of euro-area governance', *Bruegel Policy Brief*, Issue 6, December.

([186]) See, for instance, Martinez, M. and J. Navarro, J. (2016), 'Transmission of monetary policy in the euro zone, monitoring via a synthetic indicator', BBVA Research.

([187]) However on the contrary some scholars, e.g. Sinn, H.-W. (2019) https://www.project-syndicate.org/commentary/ecb-mario-draghi-monetary-stimulus-risks-by-hans-werner-sinn-2019-07, Project Syndicate, see risks for the European economy if the ECB continues the current monetary stance.

([188]) See, for instance, Bénassy-Quéré et al., *op. cit.*

([189]) See, for instance, énassy-Quéré et al., *op. cit.*

([190]) See, for instance, Buti, M., Demertzis, M. and J. Nogueira Martins (2014), Delivering the Eurozone 'Consistent Trinity', *VoxEU*, 30 March.

([191]) See, for instance, Monteiro, D. and B. Vašíček (2018), 'A retrospective look at sovereign bond dynamics in the euro area', *Quarterly Report on the Euro Area*, Vol. 17, No 4 (2018), pp. 7-26.

([192]) See, for instance, Orphanides, A. (2017), 'The Fiscal-Monetary Policy Mix in the Euro Area: Challenges at the Zero Lower Bound', *European Economy Discussion Paper* 60.

automatic stabilisers are constrained and governments face difficulties in borrowing to absorb a shock, there are no common euro-area level fiscal instruments available to help stabilise the cycle. This places a huge responsibility on monetary policy to counterbalance economic developments and shocks at a time when policy action is increasingly constrained by the insufficient and asymmetric supply of high quality assets in the euro area. In more pronounced downturns, difficulty to achieve a proper policy mix might result in unnecessary output losses, meaning that some Member States might experience more severe crises than necessary.

IV.3.2. Potential tensions in the single market

In the ongoing public debate concerns have been raised that recent EMU reforms may affect the integrity of the single market. [193] The 'six-pack' reforms of 2011 deepened the legal and institutional gap between the euro- and non-euro area Member States. While strengthening the surveillance of budgetary positions or preventing and correcting macroeconomic imbalances apply to the EU, the associated budgetary sanctions or the enforcement mechanism to correct excessive macroeconomic imbalances refer only to the euro area. Stronger and more binding rules for euro area countries compared to other Member States may in theory result in diverging policy stances. In financial supervision, new institutions remained at EU level, but they sometimes play a special role in the euro area (e.g. the European Banking Authority, the European Systemic Risk Board). Finally, the banking union with integrated supervision applies to the euro area countries, while banking regulation is still EU competence. As long as the main European financial centre remains outside the euro area, this might potentially create trade-offs between preserving the integrity of the single market and permitting the euro area countries to manage their affairs.

IV.3.3. Limited international role of the euro

The euro's role on the global stage falls far short of its potential, considering that economic security is becoming a higher priority. [194] Several factors are holding back the EU's financial sovereignty and limiting the euro's international role. These include: (i) insufficient financial sector integration; (ii) insufficient capital markets development, and (iii) the absence of a common euro area safe asset with high credit quality that is in sufficient supply. Given geopolitical changes, strengthening the international role of the euro has become a priority. But it very much depends on the completion of the EMU. The euro's role would also be strengthened if the euro area spoke with one voice in international fora. [195]

IV.4. Remaining weaknesses: overly complex architecture

EMU institutions' inability to address challenges such as financial vulnerability, insufficient long-term growth and political divisions is due to a lack of proper policy tools, and also to existing institutional conditions and incentives. There are three main shortcomings. First, the intergovernmental approach used during the crisis involved layers of reforms and a reinterpretation or redirection of existing instruments. This led to a complex decision-making process, for which it is difficult to design proper democratic checks and balances. Second, the rule-based approach has not worked in many instances and its shortcomings have led to a lack of trust between countries and in institutions. Third, mainly relying on rules and on strengthening institutions that do not necessarily represent the EU as a whole — but only partial constituencies — has led to a lack of accountability at the appropriate level.

IV.4.1. An 'ultima ratio' framework in absence of a shared narrative

The process of incremental integration following the Maastricht Treaty meant that the complexity of the EMU architecture increased over time. The architecture of EMU governance was built gradually, mainly because of insufficient consensus among Member States. [196] During the economic crisis, the capacity for EU political action was constrained by the very high levels of consensus

(193) See, for instance, Pisani-Ferry et al., 2012, *op.cit.*

(194) See, for instance, Acedo Montoya, L. and Buti (2019), 'The euro: From monetary independence to monetary sovereignty', *VoxEU*, 1 February

(195) See, for instance, Bénassy-Quéré, A. (2015), 'The euro as an international currency', Documents de travail du Centre d'Economie de la Sorbonne 15029, Université Panthéon-Sorbonne.

(196) See, for instance, Dehousse, R. (2016), 'Why has EU macroeconomic governance become more supranational', *Journal of European Integration*, Vol. 38, No. 5, pp. 617-631.

required. (197) Due to limitations in the EU legal framework in finding quick solutions to respond to emergencies, Member States often opted for new intergovernmental solutions. (198) As a result, the institutional architecture balances EU institutions' procedures with those in an increasing number of intergovernmental treaties (Treaty on Stability, Coordination and Governance, including the Fiscal Compact) and bodies (Eurogroup, ESM).

The current system is criticised as being too complex and opaque. (199) Economic and fiscal policy, which remain national competences, are now thoroughly coordinated at EU level in various fora, often with the involvement of various stakeholders. These fora and institutions have their own chairpersons and presidents, their own accountability and in some cases accounting systems. (200)

This complexity of the decision-making process makes the design of democratic checks and balances at European level more difficult. A separation of powers between the executive and the legislature is a prerequisite to guaranteeing democratic accountability of policy making. However, unlike with the EU's supranational decision-making pillar, the institutions' executive and legislative powers are not clearly delineated under the intergovernmental pillar. (201) As in other areas of the EU framework, executive bodies have the main legislative powers. For economic policy making, this would mean that the ESM — an executive body — is under orders and supervision of the Eurogroup, in principle a subset of a legislative body, which also takes executive decisions. Such a set-up causes confusion on the role of institutions, as it is not clear whether they are legislative or executive, and it is difficult to introduce proper checks and balances, where a legislative institution controls the executive one.

IV.4.2. The rules-based approach to governance has revealed some weaknesses

The shortcomings of the rules-based approach to fiscal governance were revealed in the first years of EMU. The EMU's framework of fiscal rules includes fundamental trade-offs, notably between simplicity, predictability and adaptability (or smartness). A simple set of rules can be predictable but not flexible enough to respond to changing economic circumstances. Conversely, introducing more detailed rules inevitably increases complexity and reduces transparency. (202) Moreover, concerns have been raised that a stronger role for the European Commission in implementing the fiscal rules has made the burden of taking unpopular decisions heavier, because the Commission is seen as the only relevant actor in this game. (203)

In addition, while progress has been made in fiscal consolidation, the balance between stabilisation and sustainability has not been achieved by the current rules, because the debt has increased in some heavily indebted Member States, and — according to other opinions — the fiscal framework was not sufficiently effective in confining 'the deficit bias' of governments. (204) At the other end of the spectrum, it has been argued that after the great recession the fiscal framework led to a tighter fiscal stance than in other advanced economies, explaining the poor macroeconomic performance of the euro area. (205) A more nuanced view, for instance expressed in the second section, holds that the post-crisis implementation of the rules has remained pro-cyclical, even if there has been considerable overall progress in reaching sound fiscal positions. (206)

The perception that policy outcomes have been mixed only increases the lack of trust among Member States. (207) The main divisions are between debtors and creditors, and between those who want more risk reduction and those who

(197) See, for instance, Scharpf, F. (2012), Legitimacy Intermediation in the Multilevel European Policy and Its Collapse in the Euro Crisis, Max Planck Institute for Study of Societies, *MPIfG Discussion Paper* 12/6.

(198) See, for instance, Buti, M. and M. Krobath (2019), 'Should the eurozone be less intergovernmental?', *School of European Political Economy LUISS Policy Brief*, 30 August 2019.

(199) See, for instance, Tuori, K. and K. Tuori (2014), '*The Eurozone Crisis: A Constitutional Analysis*', Cambridge University Press.

(200) See, for instance, European Commission (2017), Reflection Paper on the Deepening of the Economic and Monetary Union.

(201) See, for instance, Fabbrini, S. (2017), 'The dual executive of the European Union: A comparative federalisms' approach', Paper submitted at EUSA biennial conference, Miami, 4 May 2017.

(202) See, for instance, Buti, (2019), *op. cit.*

(203) See, for instance, Wieser (2018), *op.cit.*

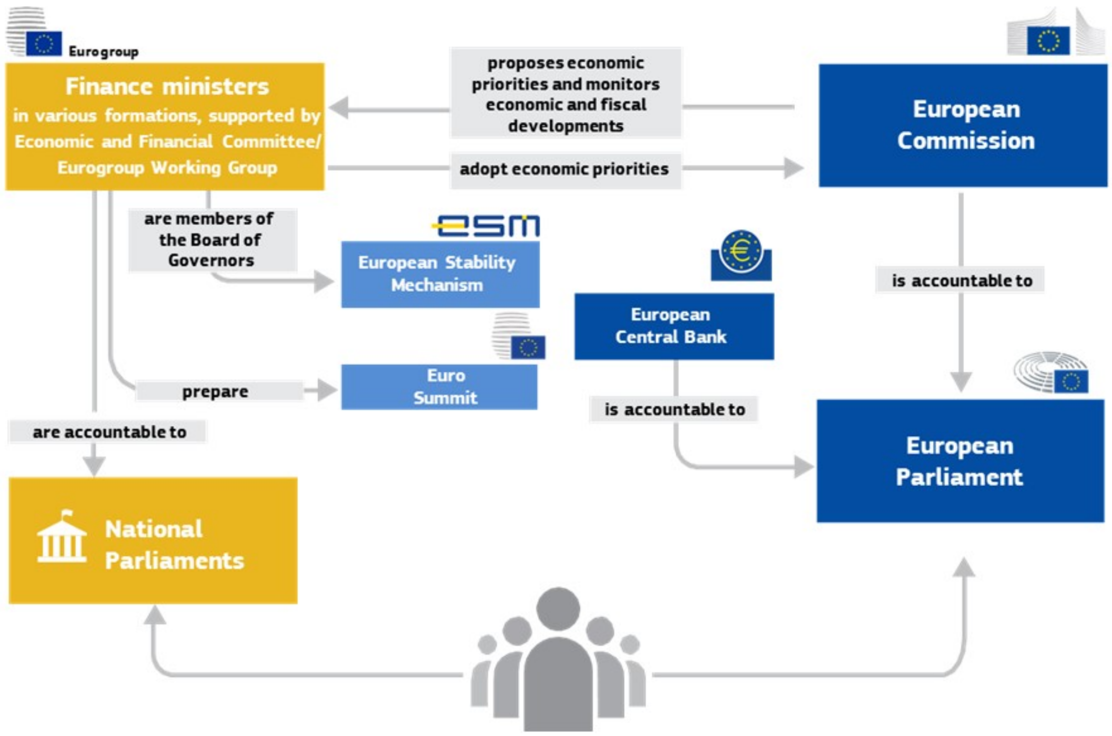
(204) See, for instance, Feld, L., Schmidt, C., Schnabel, I. and V. Wieland (2018), 'Refocusing the European fiscal framework', *VoxEU*, 12 September.

(205) See, for instance, Bofinger, P. (2018), 'Black zero' in disguise', *VoxEU*, 13 September.

(206) See, for instance, Mangov A., Monks A., Mourre G., and H. Van Noten (2019), 'Fiscal Policy', Quarterly Report on the Euro Area, Vol. 19, No 2 (2019)

(207) See, for instance, Wieser (2018), *op. cit.*

Graph IV.1: **Complex institutional architecture of the EMU**



Source: European Commission

demand more risk sharing. ([208]) Moreover, as others point out, the current situation is characterised by conflicting national preferences between these camps, which produces an inefficient equilibrium that potentially makes both sides worse off. ([209]) There is also a lack of trust in EU institutions. While political decision making is its main task, the European Commission has sometimes been portrayed in the debate as being too politicised to be given new responsibilities.

Nonetheless, common institutions with executive power and clear accountability have proven their strength, for two reasons. First, while rules are generally static and cannot be updated quickly when unforeseen circumstances arise, institutions — who must meet the specified objectives — can be dynamic and take a flexible approach. For instance, discretion and flexibility in the use of tools in the wake of the crisis helped to strengthen the ECB's credibility. By contrast, rules lose credibility if they are applied with discretion. Second, the institutional approach can help produce better outcomes because institutions and their actions can be subject to more clearly defined democratic control, as there is a more direct link between decisions and responsibility. ([210])

IV.4.3. A lack of a European perspective

During the crisis, the role of institutions that were not democratically accountable at EU level was strengthened. For instance, the European Council became the most important forum for decision making in affairs related to the EMU. The role of the Eurogroup was also strengthened. In addition to major decisions on national budgets and reforms, the Eurogroup has taken decisions on programmes, such as those agreed for Greece,

([208]) See, for instance, Demertzis, M. (2018), 'Trust in the EU? The key obstacle to reform', Bruegel.org, 9 February.
([209]) See, for instance, Delatte, A.-L. (2018), 'Fixing the euro needs to go beyond economics', *VoxEU*, 23 October.
([210]) See, for instance, Draghi, M. (2019), Sovereignty in a globalised world, Speech in the University of Bologna, 22 February.

Ireland, Portugal, Cyprus or Spain. However, while the members are individually accountable to their national parliaments, neither the European Council, nor the Eurogroup are democratically accountable at EU level. (211) This means that the principle of accountability at decision making-level has not been respected. Moreover, the current President of the Eurogroup is also a national minister of finance, presenting a potential conflict of interest with his or her national position.

The European Parliament has criticised the lack of democratic oversight of the ESM a number of times. (212) Although it provides the necessary safety net for the euro area, the ESM in its current form is an intergovernmental institution concerned primarily with preserving the interest of the Member States as creditors. The parliamentary oversight of the Eurogroup's ESM activities at EU level is also insufficient. It is essentially limited to voluntary appearances of the Eurogroup's President and the Managing Director of the ESM before the European Parliament and oversight by Member States' national parliaments.

The relative weakening of accountability at EU level was matched by an asymmetric increase in national accountability. The crisis reinforced the gap between national parliaments in the euro area, (213) as only some ministers faced great scrutiny in their parliaments. As mentioned above, the European Council's role was strengthened, but the intergovernmental working method generally limited the involvement of parliaments and their participation in policy debates. Their oversight of the European Council's activities was very uneven. (214) Several parliaments were able to influence the debate on the European level, while others were rather inactive. In particular, the parliaments of some creditor countries strengthened their positions as regards the executive. (215)

Because of a lack of accountability at the appropriate level, there is no general euro area perspective on economic policy making. Various long-term historical, intellectual and cultural factors mean that national economic philosophies in the EU do not overlap and national debates on the future of EMU produce different policy recommendations on how to respond to crises. The fact that national policy makers use the same words for different concepts only reinforces the mutual incomprehension. (216) A common European narrative on the future of EMU could be reinforced by creating more space for euro area-level debates, for instance by empowering the European Parliament and strengthening the accountability at EU level, the lack of which increases democratic deficit during times of crisis. It is impossible to achieve effective democratic checks and balances when decisions affecting the euro area as a whole are taken by national institutions. (217) There is also no certainty that an intergovernmental approach can guarantee the right balance of power between creditor and debtor regions. Meanwhile, the US experience with building a stable set of arrangements over macroeconomic and financial policy reveals that it is a long process, which requires a proper representation of both creditors' and debtors' interests. (218)

IV.5. Perspectives for the future: EMU institutional set-up in the steady state

IV.5.1. Different Scenarios for the future evolution of the institutional architecture of EMU

A wide range of options for the future development of the EMU's institutional organisation are presented in the literature. Some scenarios propose heading in the direction of a United States of Europe, and building fiscal and political unions. (219) A particular controversial discussion relates to more integration in the area of fiscal policy and the question on whether the Economic and Monetary Union misses a fiscal

(211) See, for instance, Bertoncini, Y. (2013), Eurozone and Democracy(ies): a Misleading Debate, Notre Europe – Jacques Delors Institute.

(212) See, for instance, Rittberger, B. (2014), 'Integration without Representation? The European Parliament and the Reform of Economic Governance in the EU', *Journal of Common Market Studies*, Vol. 52, Number 6, pp. 1174-1183.

(213) See, for instance, Auel, K. and O. Hoing (2014), 'Scrutiny in Challenging Times – National Parliaments in the Eurozone Crisis', Swedish Institute for European Policy Studies.

(214) See, for instance, Bertoncini (2013), *op.cit.*

(215) See, for instance, Auel and Hoing (2014), *op. cit.*

(216) See, for instance, Brunnermeier, M., James, H., and J. Landau (2016), *The Euro and the Battle of Ideas*, Princeton University Press.

(217) See, for instance, Buti, M. and M. Lacoue-Labarthe (2016), 'Europe's incompatible trinities', *VoxEU*, 7 September.

(218) See, for instance, Frieden, J. (2016), 'Lessons for the Euro from Early American Monetary and Financial History', Bruegel essay and lecture series.

(219) See Manifesto for the Democratisation of Europe) at http://tdem.eu/en/manifesto/

stabilisation instrument. ([220]) Others suggest revitalising the Maastricht rules and introducing more market discipline. ([221]) Often, possible solutions are presented as a dichotomy between more or less euro area cooperation.

A kind of middle way and multi-speed Europe was also suggested ([222]) presenting a new structure for Europe where Member States would be part of a 'bare-bones EU' with a fixed set of policies, and could then choose to integrate further and participate in multiple clubs that are open to all. Although this could break the existing stalemate between Member States, it needs to be designed carefully. One can imagine a situation where a limited group of euro area countries sign an additional intergovernmental treaty to deepen integration in one area, resulting in fragmentation of financial markets. This situation of 'one money, but several financial markets' would effectively entail several monetary policies within the euro area. ([223])

Some authors explicitly point to the link between further integration and an adequate institutional structure. For instance, Leino and Saarenheimo (2018)([224]) highlighted that discussions on EMU need to be put into a broader context, meaning that increased powers for the EU in the field of economic policy might be useful but only if adequate democratic structures are also put in place. The political and institutional dimension is further developed by Bertoncini (2013, op. cit.) who suggests a 'government' for the euro area consisting of three levels: (i) strengthened euro area summits at the presidency level; (ii) a Eurogroup with a full-time president at the ministerial level; and (iii) the ESM, the Commission, Eurogroup and the ECB at the administrative level (Bertoncini, 2013, op. cit.).

The choice of the future institutional and democratic EMU architecture will largely depend on the tools and instruments allocated to EU-level governance. Overall, and in order to tackle the remaining weaknesses of the EMU, a possible governance solution could combine: (i) stronger market discipline([225]) for all Member States; (ii) a proper degree of risk sharing that protects against the risk of financial instability; and (iii) stronger central institutions accountable for their actions at the proper level of governance. The proper sequencing of a package of reforms would be crucial to ensure that risk sharing mechanisms support the effectiveness of risk reduction measures. ([226]) In addition, without strong institutions the future of the EMU could be put into question, ([227]) as there is no legitimacy without accountability, and central institutions need to be underpinned by democratic structures.

IV.5.2. A possible euro area treasury

A euro area treasury and its possible functions is one of the ideas presented in the literature. There is no uniform understanding of how such a treasury could be designed. Some proposals suggest the creation of a euro area treasury in order to pool funding for public investment spending, financed by proper European treasury securities (ETUC, 2017, Bibow, 2015). ([228]) In particular, Bibow considers that such an institution could recreate the link between the central bank and the treasury institutions, thus addressing the euro regime's essential flaw and ultimate source of vulnerability. Traditionally, a ministry of finance or treasury is part or even the centre of a country's 'Central Finance Agency' responsible for carrying out the government's financial functions, which include policy-related, regulatory, transactional or operational and policy-transactional functions (Allen et al., 2015). ([229])

([220]) See also Mangov A., Monks A., Mourre G., Van Noten H. (2019), 'Fiscal Policy', *op cit.*

([221]) See, for instance, Feld, L., Schmidt, C., Schnabel, I. and V. Wieland (2016), 'Causes of the Eurozone Crisis: A nuanced view', *VoxEU*, 22 March.

([222]) See, for instance, Demertzis, M., Pisani-Ferry, J., Sapir, A., Wieser, T. and G. Wolff (2018), 'One size does not fit all: European integration by differentiation', *Bruegel Policy Brief*, Issue 3, September.

([223]) See, for instance, Pisani-Ferry (2012), *op.cit.*

([224]) See, for instance, Leino, P and T. Saarenheimo (2018), 'Fiscal stabilisation for EMU: Managing incompleteness', *European Law Review*, Vol. 43, No. 5, pp. 623-647.

([225]) See, for instance, Meyermans, E. (2019), 'Does market discipline enter governments' fiscal reaction functions in the euro area?', *Quarterly Report on the Euro Area*, Vol. 18, No 1 (2019), pp. 9-23.

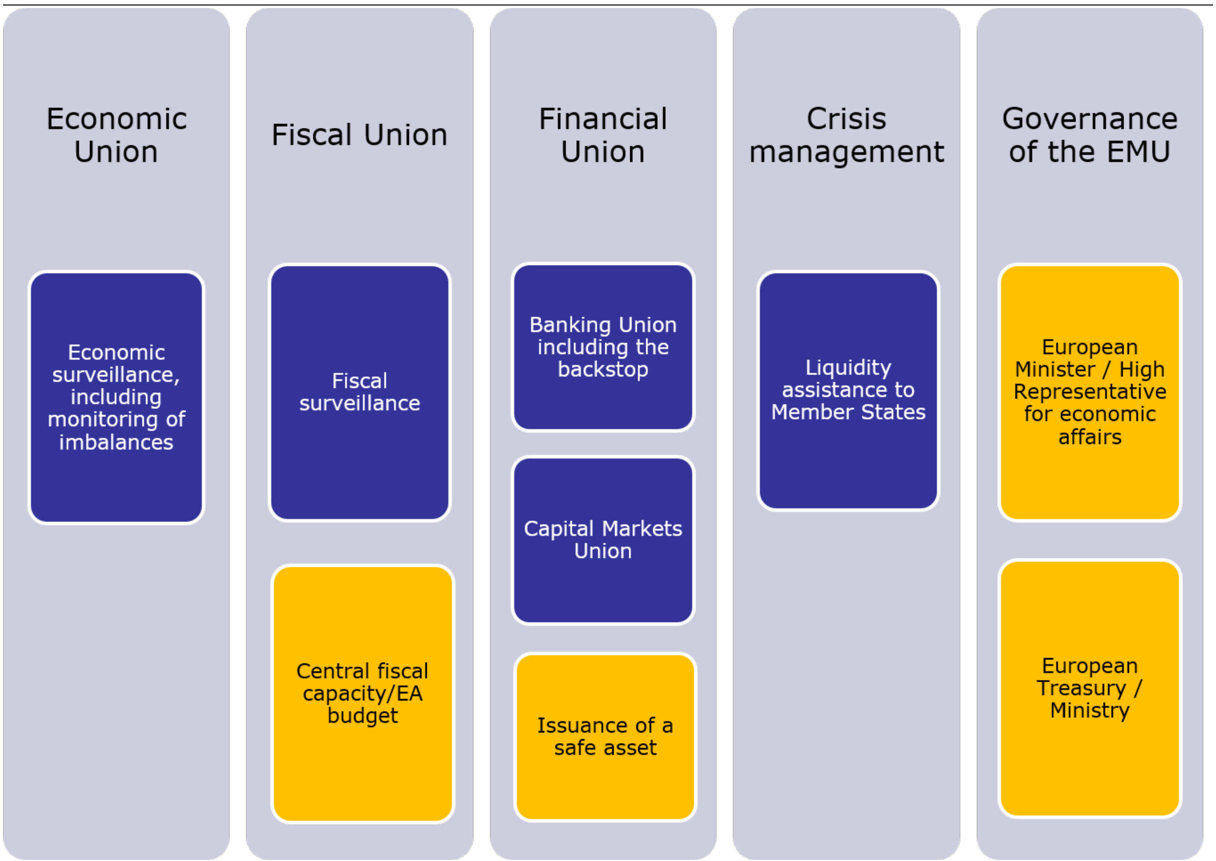
([226]) See, for instance, Buti, M., Deroose, S., Leandro, J. And G. Giudice (2017), 'Completing EMU', *VoxEU*, 13 July.

([227]) See, for instance, Tabellini, G. (2018), 'Risk sharing and market discipline: Finding the right mix', VoxEU, 16 July.

([228]) ETUC position paper: 'A European Treasury for Public Investment' (2017): https://www.etuc.org/en/document/etuc-position-paper-european-treasury-public-investment,
Bibow, J. (2015) 'Making the Euro Viable: The Euro Treasury Plan', Levy Economics Institute, Working Papers Series Paper No. 842.

([229]) See, for instance, Allen, R., Hurcan, Y., Murphy, P., Queyranne, M., and S. Ylaeoutinen (2015), 'The evolving functions and organisation of Finance Ministries', *IMF Working Paper*, WP/15/232.

Graph V.3: **Possible architecture of the Economic and Monetary Union**



(1) Existing instruments (that could be still expanded or revised) are marked in blue, while the new ones in yellow
Source: European Commission

A euro area treasury would clearly not have all the functions covered by a national ministry or treasury. A link and possible authority over national budgets would therefore need to be clarified. (230) Initially, a treasury could bring together existing competences and services that are currently scattered across different institutions and bodies. (231) It could therefore cover the economic surveillance competences currently performed by the European Commission and eventually — once the ESM becomes part of the EU legal framework — also include the activities currently performed by the ESM, including the backstop to the Single Resolution Fund.

In time, when an agreement is in place on new instruments to tackle the remaining weaknesses of the EMU, such a treasury could be given additional tasks. These new instruments could make it possible to have a symmetric adjustment and to achieve a proper macroeconomic policy mix in the euro area, or to strengthen the international role of the euro.

A treasury could be in charge of a central fiscal capacity, which could take various forms, such as: (i) a macroeconomic stabilisation fund (e.g. Arnold et al 2018),(232) (ii) an unemployment insurance scheme (233); or (iii) a euro area budget focussed on financing investment in Member States. (234) Such a central fiscal capacity could also have a borrowing capacity to increase the stabilisation effects in case of extreme shocks. (235) A treasury could also offer

(230) See, for instance, Bénassy-Quéré, A. (2016), 'Euro-area fiscal stance: definition, implementation and democratic legitimacy', European Parliament, Economic and Monetary Affairs Committee.
(231) European Commission (2017), Reflection Paper on the Deepening of the Economic and Monetary Union. COM(2017) 823 final.
(232) See, for instance, Arnold, N., Bergljot, B., Ture, E., Wang, H. and J. Yao (2018), 'A central fiscal stabilization capacity for the euro area', *IMF staff Discussions Note*, SDN/18/03, March.
(233) See, for instance, Beblavý, M. and I. Maselli (2014), 'An Unemployment Insurance Scheme for the Euro Area: A simulation exercise of two options', *CEPS Special Report* No. 98.
(234) See, for instance, Enderlein, op. cit.
(235) See, for instance, Claeys, G. (2017), 'The mission pieces of the euro architecture', *Bruegel Policy Contribution* No. 28.

more funding services to the euro area Member States, as it would be responsible for common issuance at the euro-area level. A common safe asset could tackle the 'flight to safety' phenomenon and the associated large capital flows from one country to another during a crisis and would therefore prevent further fragmentation in financial markets. ([236])

IV.5.3. A high representative for economic affairs

In the literature, a euro area treasury is often linked to a European minister. A first step in strengthening the EMU's institutional architecture in this direction could be to make the President of the Eurogroup a full-time position. A permanent Eurogroup President could be a catalyst for future institutional reforms. The idea was already explored by euro-area leaders in 2011,([237]) and has recently been supported by some authors.([238]) The argument goes that, in contrast with the current practice of the Eurogroup President being one of the ministers, making the job full-time would enable a considerably deeper involvement by national policy actors, which would improve the understanding and acceptance of common policies. It could also help to avoid conflicts of interest stemming from the President's position as a national minister of finance. The Eurogroup President would need to consult regularly with national parliaments ([239]) but would also hold regular dialogues with the European Parliament.

As a second step, an overly complex governance structure could be mitigated by creating a European minister of economy and finance or a high representative for economic affairs. The notion of a European minister of economy and finance has been raised by various scholars and politicians, although there is no common view on what powers and competences such a figure should have. As Geeroms (2017) ([240]) points out, the position of a minister needs to be based on a commonly agreed mandate and powers in order to avoid an additional administrative layer. Institutionally, he suggests — for the sake of simplicity and credibility — that the role should combine the position of President of the Eurogroup and a member of the European Commission. The Commission also suggested such a 'double-hat' minister in its Communication of December 2017, with the minister being a Commission vice-president and chair of the Eurogroup (COM, 2017). ([241])

A high representative could increase transparency on several levels. Being a member of the European Commission, the high representative would be accountable to the European Parliament, including on issues related to the ESM, as the Eurogroup President is usually chairing the ESM's Board of Governors. Such an increase in transparency at the euro-area level would be in addition to the accountability each individual Eurogroup minister already has towards her national parliament. This two-level system of accountability could improve the balance of preferences between both creditors and debtors and promote the euro area's interest in the Eurogroup's and the ESM's actions. A special — initially informal — appointment procedure could be created to make it possible for the European Parliament to appoint and dismiss the high representative. Such a procedure could be later established in the revised EU Treaties, further reinforcing accountability at the EU level. The high representative would therefore receive political legitimacy from the European Parliament and would be politically independent from Member States.

A minister or high representative is associated with different competences in the literature. Villeroy de Galhau (2016) ([242]) suggests a minister who would be responsible for preparing a collective economic strategy for the euro area. Such a strategy would be adopted by the Eurogroup and endorsed by the European Parliament. In addition, the minister would be in charge of supervising the

([236]) See, for instance, Best, K. (2018), 'Shared scepticism, different motives: Franco-German perceptions of a common European safe asset', *Jacques Delors Institute* Berlin; and Monteiro and Vašíček (2018), *op. cit.*

([237]) https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/125644.pdf

([238]) See, for instance, Wolff (2017) op. cit. and Enderlein, H. and J. Haas (2015), 'What Would a European Minister of Finance Do? A Proposal', Jacques Delors Institut.

([239]) See, for instance, Fabbrini (2017), op. cit.

([240]) See, for instance, Geeroms, H. (2017), 'Why the Eurozone needs a minister of finance and economic reform', *European View*, 16, p. 219-230.

([241]) COM(2017) 823 final.

([242]) See, for instance, Villeroy de Galhau, F. (2016), 'Europe at crossroads: How to achieve efficient economic governance in the euro area?', speech at Bruegel, 22 March.

implementation of policy objectives at national level, crisis management and a euro area budget. Other contributions suggest that the minister should represent the euro area globally thereby helping the euro area to speak with a unified voice (Geerooms, op. cit., COM, 2017, op.cit.).

Creating a minister of finance is not uncontroversial. Some scholars (Wolff, 2017, Fabbrini 2017, op. cit.) ([243]) point to problems with the separation of powers. This is because the ECOFIN Council ([244]) is, in principle, a legislative institution, but it also has executive functions. This confusion would not be resolved by appointing the double-hat minister as president of the Eurogroup and the Commissioner: s/he would have a combined executive and legislative role, chairing the Council that should in principle control her/him. An alternative solution is that the minister could be appointed by the Eurogroup to become the vice-president of the Commission responsible for economic affairs. In such a scenario, s/he would be accountable to the Eurogroup, but would need to receive a strong executive mandate entailing new functions and responsibilities.

IV.6.Conclusions

In conclusion, while the first attempts to build a monetary union in Europe go back to the end of 1960s, the institutional set-up of the EMU was designed in the Delors report and reflected the policymaking consensus that prevailed in the 1980s. History shows that cooperation on economic and monetary policy started with a rather lose coordination which eventually led to the centralisation of monetary policy and duly coordinated economic policies at the EU level. Important revisions of the Maastricht framework have taken place in the wake of the economic and financial crisis of 2008-2013, which also reflect the experiences of other monetary unions — for instance the one in the United States of America — which have been evolving over the years and developing in response to economic difficulties.

The remaining incompleteness of the EMU architecture is widely recognised. Different solutions to the shortcomings have been presented in the debate, and in the recent years policy makers have been discussing possible avenues of reform. The EMU and its governance structures will most probably change in the future. While introducing EMU reforms, it will be important to reduce the complexity of the governance structure, increase democratic accountability and the European perspective of economic policy making. The planned reform of the EMU could fundamentally shift the surveillance balance away from rules towards stronger institutions and more market discipline. Finally, the ultimate institutional architecture of the EMU should be consistent with the final institutional set-up of the EU itself. Institutional arrangements for economic governance cannot be discussed in a vacuum, but should rather be set against the background of the Treaty-based EU institutional framework. ([245])

([243]) Wolff, G. (2017), 'The European Commission should drop its ill-designed idea of a finance minister', http://bruegel.org/2017/12/the-european-commission-should-drop-its-ill-designed-idea-of-a-finance-minister, 4 December.

([244]) While the Eurogroup is not a (legislative) institution, only Eurogroup members are allowed to vote in the ECOFIN Council on matters only affecting the euro area.

([245]) Fabbrini, 2017, *op. cit.*