Extract from:
Tommaso Padoa-Schioppa Group,
'Completing the euro - A road map towards fiscal union in Europe',
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FOREWORD

by Jacques Delors and Helmut Schmidt

In the present context of tensions and crisis surrounding the functioning of the European Economic and Monetary Union, it is particularly enlightening to find in-depth analysis and a source of inspiration in the Report elaborated by the "Tommaso Padoa-Schioppa Group" put in place by *Notre Europe*.

Tommaso Padoa-Schioppa was an eminent expert of the economic and monetary integration, not only at theoretical level, but also as a practitioner, given the important responsibilities he held at the European Commission and at the European Central Bank. He had testified, as we do, that the potential difficulties and functional deficiencies mentioned in this Report were not ignored, neither when the European Monetary System was set up in the late 1970s nor when the Economic and Monetary Union was launched in the early 1990s. Most of these deficiencies had indeed been mentioned, but the political compromises concluded at these stages of the European construction did not allow creating a perfect "EMU".

In the new context created by the current crisis, the great interest of this Report is to call on "completion of the euro" on the basis of very acute and pragmatic analyses of the challenges at stake, but also with the objective of proposing both feasible and decisive options. This Report also deserves credit for going beyond the short-term emergencies and trying to identify the main structural problems of the euro area.

Dealing with heterogeneities in a currency union is the first key challenge identified. It leads the Report to stress the need to complete the single market, to reduce the pro-cyclical impact of the ECB real interest rate by allowing the "real exchange rate" channel to work better. It also proposes the creation of a "cyclical stabilisation fund" to help countries recover from EMU-induced cyclical downturns.

Putting in place a "euro area banking union" to break the nexus between banking weaknesses and sovereign debt dynamics is another key proposal put forward by the Report. Now that the negative effects of the banking crisis are clearly visible, it indeed appears all the more useful to create a banking supervision authority able to exercise micro-prudential supervision powers and, in parallel, to set up an EMU agency capable of supplying funds for the resolution of the banking crisis as well as administrating a European bank deposit guarantee scheme.

Promoting a "sui generis fiscal federalism approach" for the euro area is the other key proposal of this Report. It is naturally crucial to propose and adopt a rebalancing of fiscal rights and fiscal duties within the EMU, which could go beyond the decisions already made in the last period: the Report is particularly right to insist on such rebalancing and particularly wise in the selection of the options to move in this direction. This rebalancing must imply much stricter budgetary surveillance from European level and a reinforced coordination of national economic policies.

In addition to the rules proposed to ensure the equilibrium of the system, it is indeed vital to establish true coordination between the economic policies implemented by the Member States, which has been missing sorely until now. This cooperation must guarantee the necessary consistence of the Monetary Union while taking into account the specific situation of each European country.

The Report is also right in pointing out the need to shield EMU countries from a "self-fulfilling solvency crisis". To this purpose, it proposes the creation of a "European debt agency" jointly guaranteed by all euro area countries, which would assist EMU countries under financial pressure but also provide financing to EMU countries at a rate reasonably above the one of the best-rated countries.

The Report does not propose to modify the role of the European Central Bank, and it is right to do so: the main challenges to address lie elsewhere, and all the Member States must learn to promote competitiveness in the context of monetary stability established by the ECB. The Report does not elaborate extensively either on the need to promote dynamism and cohesion in the internal market formed by 27 countries, on the basis of a good balance between competition, cooperation and solidarity: it was not its central objective to deal with this issue, which has nevertheless to be considered as equally essential as the resolution of the current EMU crisis.

Last but not least, the Report of the Tommaso Padoa-Schioppa group insists on the need for a "Road map" detailing all the operational steps that lead to a more stable and prosperous euro area, from the very short term decisions (which should also include the ratification of the "Fiscal compact") to the medium term ones (for example the issuing of "Eurobonds"). In this respect, it designs a clear conceptual and political horizon, well beyond the first political agreements already reached, and in which the meaning and impact of the technical options mentioned appear even more consistent.

We wish that all European decision makers could find in this Report the global vision and perspectives that have often been missing since the beginning of the crisis, and that, on this basis, they will be able to reinforce the EMU and the European Union at large.

Jacques Delors*, founding President of* Notre Europe,
former President of the European Commission
Helmut Schmidt*, former Chancellor of the Federal Republic of Germany*
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