

**Berlin Debates, 15 July 2015:
'Eurozone leaders must seize this moment to create a political and fiscal union'
At the French Embassy, Berlin**

Keynote speech from Mario Monti:

In his pre-debate opening remarks, **Senator Mario Monti**, former Italian prime minister and European Commissioner, outlined his thoughts on the need for a Eurozone political and fiscal union. According to Mr Monti, rather than a multiplication of unions (economic, monetary, political), the Eurozone would benefit from the formation of a single, coherent union, stressing that a 'European Community' remains the optimum description of what must be achieved.

Mr Monti outlined how economic and monetary union (EMU) must remain a key component of a wider fiscal and political union, with Greece representing a pertinent example of how the economic component of EMU remains incomplete. He also expressed concern that, broadly speaking, Eurozone countries remain less supportive of a deeper EU single market than those outside EMU. Mr Monti added that a fiscal union would need to encompass far more than adherence to fiscal discipline, requiring coordination of national taxation policies, some form of centralised Eurozone budget, as well as other fiscal resources.

Regarding the creation of a political union, Mr Monti said that it is possible that Europe will one day more closely resemble the current construct of the United States. In this regard, he also highlighted the considerable progress in coordination of intra-Eurozone political decision-making that has taken place in recent years, including greater scrutiny of member state national budgets by the European Commission, with a corresponding reduction in powers previously the exclusive domain of national parliaments.

In his concluding remarks, Mr Monti addressed the need for a more pan-European political dialogue, with less emphasis on the national political issues, which are dominated by short-term concerns and electoral cycles. He discussed his experiences of the European Council during his term as Italian prime minister during 2011-13, where discussion was excessively nationalistic in focus rather than advancing the wider European interest. He added that there was an almost complete absence of discussion within the Council of salient European-wide issues such as the rise of nationalism and political populism. According to Mr Monti, the widespread challenges currently facing Europe cannot be solved by excessive focus by political leaders and media on short-term national issues.

The Debate:

Peter Bofinger, member of the German Council of Economic Experts, opened the case in support of the motion by stressing that the long-term survival of the Eurozone cannot be assured without the creation of a political and fiscal union. He also outlined that the more robust economic recoveries in the US and UK compared to Europe in recent years is largely explained by the absence of an adequate fiscal backstop. According to Mr Bofinger, while aggregate Eurozone public debt was lower than the US before the crisis, the absence of a pan-Eurozone fiscal stance and policy resulted in a loss of financial market confidence in several member states, excessive austerity, and weak economic growth. He also outlined how a fiscal union, and the creation of a powerful Eurozone finance minister with legislative powers to regulate national

budgets would be a more effective guarantee of fiscal discipline than the current stability and growth pact. Another driver of economic instability that would be addressed by a fiscal union continues to threaten the single currency's long-term survival is the vulnerability of member states to the erratic financial market behaviour, according to Mr Bofinger.

Also speaking in support of the motion, **Agnès Bénassy-Quéré**, Chair of the French Council of Economic Analysis, highlighted how political union has become more urgently needed due to the ongoing crisis in Greece. In her view, steps to develop a political union within the Eurozone are now more important than creating a fiscal union, given the possibility of contagion from the situation in Greece. According to Ms Bénassy-Quéré, a sovereign debt default by Athens or Grexit would have an enormously destabilising impact on the single currency area, and its long-term survival prospects. Rather than public debt sustainability, she stressed that European leaders should focus on the political sustainability of the Eurozone in its current form. Regarding fiscal policy, Ms Bénassy-Quéré argued the Eurozone should be thought of as a single country rather than 18 individual member states, with the European Stability Mechanism (ESM) bailout fund the basis for a centralised budget. She stressed that government retrenchment has been excessively pro-cyclical during the last five years.

Otmar Issing, former member of the ECB executive board, opened the case against the motion. He highlighted how most the German economic establishment, which largely opposed the creation of the single currency, were assured in the early 1990s that EMU would only take place following the formation of a political union. Mr Issing expressed concerns over the incomplete nature of the EU single market, which he outlined should be a priority for national governments and the European Council. He also discussed the recently published 'Five Presidents' Report', which lays the framework for completing a more federalised EMU, outlining his support for a number of its suggestions, including further integration of capital and financial markets. However, Mr Issing was critical of other areas of the report, expressing firm opposition to creating a political and fiscal union. He added that there remains a wholesale absence of popular support for such a development, which would naturally entail a dramatic loss of sovereignty and democratic legitimacy. In his opinion, efforts to create a political union would also risk stimulating a further increase in political extremism and support for populist parties.

In opposition to the motion, **Reint Gropp**, President of the Halle Institute for Economic Research, spoke of the lack of vision displayed by European policymakers during the last five years. While supportive of efforts to create a more complete banking union with the Eurozone, Mr Gropp expressed opposition to the elements of the Five Presidents' Report that seek to further integrate existing fiscal and political competencies. In particular, he stressed that many of economic reforms contained in the report aiming to boost economic growth could more easily be introduced at the national rather than federal level. Creating a political and fiscal union, and the corresponding dramatic loss of national sovereignty, purely in response to an economic crisis was also an inappropriate manner to conduct policymaking, according to Mr Gropp. In his opinion, the formation of a fiscal union would represent a surreptitious effort by European policymakers to enact a wholesale intra-Eurozone redistribution of wealth.

The post-debate vote revealed a sizeable majority of the audience in favour of the motion 'Eurozone leaders must seize this moment to create a political and fiscal union' – with 58% voting for, 28% against and 14% abstaining.