LUISS SCHOOL OF EUROPEAN POLITICAL ECONOMY

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THREE THINGS TO DO TO STRENGTHEN EUROZONE ECONOMIC GOVERNANCE

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MY MAIN POINTS on economic governance reforms to strengthen stability and revive growth in Europe centre on risk, discipline, and symmetry, all of which need priority attention and speed to enact.

Our current risk-sharing system has evolved in the right direction in response to the economic crisis, but it still lacks some essential components. In the finalized Banking Union, risk-sharing arrangements need to be complemented by supra-national deposit insurance backed by a common budget in case of a future systemic banking crisis. This common budget could evolve gradually from the European Stability Mechanism (ESM), the area's common stabilisation fund. In addition, the system needs to have common insurance against idiosyncratic shocks hitting the sovereign debt market of highly indebted countries, requiring a lender of last resort by the European Central Bank (ECB) plus a common fiscal back up, which could also be built upon the ESM. The Resolution Fund should be fully mutualised at a more rapid pace and be expanded in size.

Discipline and convergence need to be found. European economic policy has a tendency to resort to excessively rigid and over-complicated rules that will never be able to preempt all possible contingencies. The alternative is to transfer direct enforcement powers, with greater room for discretionary evaluation, to a newly established European Minister of Finance; serious consideration should be given to entrusting this function to the Commissioner for economic affairs.

The Macroeconomic Imbalances Procedure should be strengthened and made more symmetric, establishing more consistent obligations between deficit and surplus countries. It should be stressed that this does not amount to a request that countries in strong payment positions should become less competitive; policy prescriptions could concentrate on market-opening measures, particularly network utility services, and on mobilising domestic private and public investment to absorb excess savings.

The internal market should be brought back to the top of the European Council's priority deliberations, with targeted measures to open up the energy, telecommunications, and transport markets, and to quickly achieve a fully-functioning digital market. A fast-track procedure, similar to what was used in the past for financial services, could help speed up all relevant legislation. The effective implementation by member states of policies agreed upon in this domain by the Council and Parliament should become a key component of country-specific recommendations.