LUISS SCHOOL OF EUROPEAN POLITICAL ECONOMY

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THE REAL MATCH OVER DEBT

The Proposal for a European System of Deposit Insurance

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THE EUROPEAN COMMISSION'S proposal for the creation of a European Deposit Insurance Scheme (EDIS) triggered a particularly sour reaction from German authorities. *Spiegel Magazine* reported that German Finance Minister Schäuble is striving to create a minority block within the Economic and Financial Affairs Council (ECOFIN) to block the proposal. The primary objection to EDIS can be condensed into this: if the banks of indebted countries are not first induced to significantly reduce their investment in their own governments' bonds, a common system of deposit insurance would essentially be equivalent to the creation of the infamous Eurobond, namely a collective system of guarantees for the public debt of the member states.

The second objection, of no less importance, concerns the fact that, in each country, Italy among them, deposit insurance does not allow for the *ex-ante* accumulation of funds held by banks, with contributions determined based on the riskiness of their business models, but only *ex-post* intervention to save banks individually. In other words, the "good banks" need to save the "bad banks": a recipe that comes with a great deal of moral hazard. Therefore, in Berlin, EDIS is viewed as a way to pool funds already set aside by some member states, on one hand, with unspecified risks for which no money has been set aside, on the other.

At the core of the German position, something that I believe continues to be ill-understood here in Italy, lies the philosophy that excludes the sharing of risk between member states (and their taxpayers), both for public and private debt. For private debt, the problem was resolved through a new resolution mechanism, which guarantees that the losses of mis-managed banks will be borne by their shareholders and creditors—as happened in recent days with the impeccable liquidation operation of four small banks by the Bank of Italy in its new role as a national resolution authority.

For public debt, the problem might, at present, be muted by the morphine distributed in enormous quantities by the European Central Bank (ECB) through Quantitative Easing (QE), but it is by no means resolved. To its eurozone partners, Germany proposes two escape routes for guaranteeing the stability of national budgets: either a major centralization of budgetary decisions (in which case, Renzi would no longer be able to put €500 into the pockets of each future voter reaching the age of 18), or a complete decentralization through the application of "bail-in" on sovereign debts, accompanied by strong limitations on national debt holding by banks. What indebted countries cannot have is a mechanism that would drag their fellow member states once more to the rescue in the event that a new asymmetric shock hits over-indebted countries. At this juncture this seems to be the only game on the table; peripheral calls for 'solidarity' are only understood in Germany as pleas to abandon 'responsibility' in the management of sovereign debts and more broadly the national economies in the euro area.