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eDossier

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Different Scenarios for the Future of the Monetary Union

Different Scenarios for the Future of the Monetary Union

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Introduction

Roland Kulke

At the Summer University of the European Left Party in Vienna, the topic of our panel discussion on 13th July 2018 represents one of the most hotly discussed debates in left circles. The discussion regarding the best monetary system for the EU is immensely broad. On the one hand, you can delve into technical language and deal with technical issues. On the other hand, many people in the EU were deeply affected by the impact of a flawed monetary system on their daily lives. So, the topic ranges from "pure" theory to the daily struggle to survive and live a dignified life.

It is of the utmost importance for the left to discuss and understand the many different aspects of this topic. Let me provide two historical examples of the impact of monetary policies on progressive political projects: 1981-1982, the German national bank, Die Bundesbank, destroyed the PS-PCF government by raising interest rates; 1992, another increase in German currency interest rates attacked the weakening Swedish welfare state. These two examples demonstrate the ability of the German Bundesbank to dominate the political systems of Germany's neighbours in a truly imperialist fashion. When the Euro was introduced, relevant representatives of the German capitalist class were opposed to it. This was because they already dominated the other economies anyway. Hence, the period before the introduction of the Euro was a far cry from a "democratic" order between the economies that would later become part of the Eurozone. But, is it really any better today with the Eurogroup meeting in secret and destroying, under the leadership of Germany and its "hawkish" allies of the old DM block, left governments like Syriza once again? As it is currently constructed, the Euro is certainly not something that the left can sympathise with.

But what are the alternatives? Getting out of the Euro seems to terrify the majority of Eurozone citizens; at least, no Euro-exit parties managed to gain relevant votes in the last elections. But within the Eurozone, a sustainable growth model seems to be impossible too. Once again, it is time to discuss these challenges. We are very grateful to Kenneth Haar, who is opening the panel by focusing on the options debated at an elite level and their potential outcomes. Marcia Frangakis will follow with a focus on the monetary aspects of the discussion. The final contribution will come from Steffen Lehndorff, concentrating on the national preconditions of successful policies and aspects being missed in the left debate.

Different Scenarios for the Future of the European Monetary Union

Marica Frangakis, Nicos Poulantzas Institute, Athens

The European Monetary Union (EMU) was founded on a theoretically and empirically faulty presumption: namely, that national economic divergences do not matter and that an integrated financial system bound by a common currency is risk-free. It has taken a fully fledged crisis for the EMU's shortcomings to become manifest.

In particular, from the start, the euro conception was extremely narrow. It was based on the attainment of two fiscal goals: public deficit, less than or equal to 3% of GDP, and public debt, less than or equal to 60% of GDP. Furthermore, the European Central Bank is, by design, completely powerless in dealing with a financial crisis, since its remit most emphatically excludes providing any support to a government in trouble.

The dysfunctionality of the original design of the EMU was further accentuated by the EU's response to the global financial crisis. Such was the ineptitude of the handling of the financial crisis by the EU authorities that a Eurozone debt crisis ensued, starting with Greece in 2010 and spreading to several other Eurozone countries by 2012.

However, a significant lesson for the Left became apparent. This was that the Eurozone crisis revealed the inherent political preferences of the European ruling elites, beyond any doubt, both prior to and following the debt crisis. Such preferences have renewed the neoliberalism that is constituted in the original design of the EMU, turning the latter into an even more absurd construct.

As may be expected, the revamped EMU is increasingly dividing Europeans, while a rising far right throughout the EU is evident. Unfortunately, the EuroMemo Group's 1997 forecast is coming true: namely, that "The Maastricht Agenda is a threat to welfare, justice and European unity"[1].

In the following sections, we shall examine the changes to the EMU introduced during the crisis, what these purport for its future, the scenarios currently under discussion and the challenges for the Left.

EU RESPONSE TO THE EUROZONE CRISIS – RENEWED NEOLIBERALISM

The EZ architecture is exclusively concerned with the public finances of member states, to which other concerns, especially social ones, are subjugated. Its main adjustment mechanism is through wages, while it relies on sanctions for its enforcement. The response to the EZ crisis has reinforced the inbuilt neoliberalism of fiscal policy.

More specifically, over the course of the crisis, a substantial number of economic governance reforms were implemented. They carry obscure names such as "Six-Pack" (introduced in 2011), "Two-Pack" (introduced in 2013) and "Fiscal Pact", alias Treaty on Stability Coordination and Governance (introduced in 2013). Overall, stricter numerical rules, new benchmarks, legally binding objectives, constant surveillance of the member states by the EU institutions and automatic responses triggered by the former's non-compliance to the rules were put into effect[2].

Central to the relations between member states and the European institutions is the principle of "comply or explain",

1 EuroMemorandum 1997 – Full Employment, Social Cohesion and Equity for Europe – Alternatives to Competitive Austerity; available from: http://www.euromemo.eu/euromemorandum/earlier_euromemoranda/euromemorandum_1997/index.html.

2 The Eurozone governance rules are especially strict in the case of member states coming out of a bailout austerity regime: that is, Ireland, Portugal, Spain, Cyprus and Greece. These countries are submitted to regular review missions by the European institutions, while Greece is under an even stricter regime, known as an "enhanced" post-programme surveillance procedure.

whereby the former must justify changes to the policy proposals made to them by the Commission.

This is a market-oriented principle that is used in the UK, Germany and the Netherlands, and is common in the fields of corporate governance and financial supervision. Basically, it anticipates that if investors do not accept a company's explanations, then they will sell their shares, hence creating a "market sanction", rather than a legal one.

Thus, member states are likened to corporations, political intermediation is ceded to the diktat of the markets, while the response of the EU authorities consists of strict sanctions in case of non-compliance. In this way, not only does the EMU fail to shield its members from the risk of financial instability, it further exposes them to the arbitrariness of financial interests.

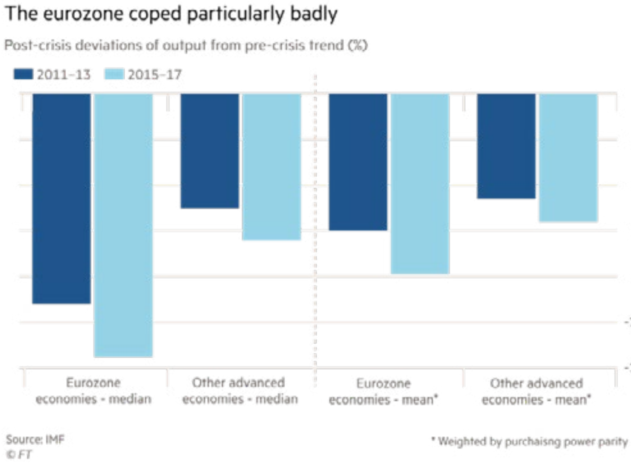
Overall, the post-crisis Eurozone governance reforms have reinforced both the deflationary impact and the inbuilt neoliberalism of EU fiscal policy.

Monetary policy, on the other hand, has attempted to overcome its statutory constraints by instituting "non-standard" measures, which have not, however, been able to change the tide. On the contrary, they have added to the sources of instability.

In particular, the "Quantitative Easing" programme, introduced in early 2015 and scheduled to end in December 2018, monetised large chunks of private and public debt. In doing so, it increased the vulnerability of the financial system through increased liquidity, looking for high-risk/high-profit assets.

Furthermore, the zero/negative ECB interest rates of latter years not only failed to revive the economy, they also added to the vulnerability of the system. In particular, the end of easy financing conditions, accelerated money tightening and the US-led trade wars may well lead to a capital flight away from high-risk assets, thus precipitating a new crisis in the most vulnerable regions of the Eurozone.

Figure 1 – Loss of output in the Eurozone and other advanced countries



Source – Quoted from Wolf, M. 2018, How to avoid the next financial crisis, FT, October 2018

Last but not least, the involvement of the ECB in the so-called bailout programmes of borrower countries lent it a political role. This was used to increase political pressure on these countries to comply with the austerity policies imposed by the programmes.

Not surprisingly, the performance of the Eurozone economy, which was lacklustre even before the crisis, has not yet reached pre-crisis levels (Fig. 1).

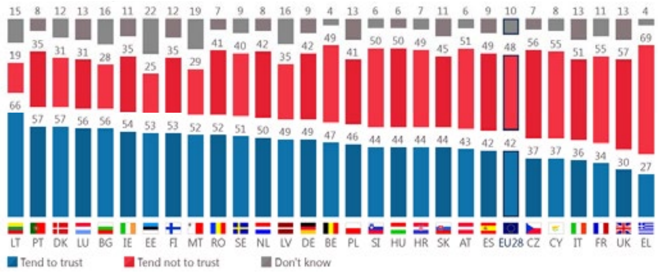
Thus, annual per capita GDP growth rate was equal to 1.6% in 2004-2008; it dipped to -0.7% in 2009-2013 and is expected to reach 2.1% in 2018, and 1.8% in 2019. Unemployment displays a similar path of high pre-crisis levels, significantly worsening during the crisis and struggling to get out of the rut at present. The unemployment rate was equal to 8.4% in 2004-2008; it rose to 10.7% in 2009-2013 and is expected to reach 8.4% in 2018, and 7.9% in 2019. Importantly, investment has also been lagging, even though labour costs have decreased, thus refuting the neoliberal myth that reducing wages boosts profit and therefore investment.

A RISING FAR RIGHT – NATIONALIST POPULISM

The deteriorating social and economic conditions of the Eurozone have produced widespread dissatisfaction, as well as reducing trust in parliaments and support for the EU.

The rising dissatisfaction has led to the phenomenon of nationalist "populism", defined as a political tendency distinguished by its anti-elite, authoritarian and nationalist

Figure 2 – Trust in the EU – % replies to the question "How much trust do you have in the EU?"



Source – Standard Eurobarometer 89, Public Opinion in the EU, Spring 2018, March (p.13)

elements, rooted in economic insecurity and identity politics, whereby age and education are important drivers[3]. It has indeed been found that there is a strong correlation between the probability of voting for a populist party and attitudes towards European integration and trust in political institutions (Fig. 2).

The national elections of the past two years have indeed resulted in a considerable shift to the right, as right-wing populist parties have recorded net electoral gains in Austria (+3pp), Bulgaria (+5pp), France (+3pp), Germany (+5pp), Italy (+11pp), Hungary (+4pp), the Netherlands (+8pp), Slovenia (+4pp) and Sweden (+3pp), representing more than 50% of the total EU population.

In view of these developments, it may be argued that the political debate is shifting to the right as mainstream parties are moving in a populist direction. The influence of Turkey, which is controlling the flow of refugees into Europe, must also be taken into account[4]. Hence, it is important for the EU and the national political systems to deliver effective responses to the problems facing their societies; this is especially true of the Eurozone woes.

THE ITALIAN FACTOR

In the Italian general elections of early March 2018, no political group or party won an outright majority. After protracted negotiations, on 31st May 2018, Giuseppe Conte was appointed as prime minister with the support of the right-wing "League" and the populist "Five Star Movement", which formed a coalition government with their leaders (Matteo Salvini and Luigi Di Maio respectively) becoming vice-premiers. Euroscepticism, if not outright anti-European Unionism, is the common element uniting the two government allies.

The clash between the new Italian government and the dominant EU economic dogma came a few months later. In particular, the new government's draft budgetary plan for 2019 was rejected by the European Commission, identifying in it "a serious non-compliance with the fiscal recommendation addressed to Italy by the Council on 13 July 2018"[5].

The "non-compliance" comes in the fact that the draft budget provides for a fiscal expansion of approximately 1% of GDP, while the European Council had recommended a fiscal adjustment; the deviation, which amounts to 1.4% of GDP or € 25 million, is, according to the Commission, "unprecedented in the history of the Stability and Growth Pact"[6].

As a result, the draft budget submitted by the Italian government expects the public deficit to reach 2.4% of GDP. This is three times higher than the one planned by the previous government, which in April 2018 announced that it would target a deficit of 0.8% of GDP.

The European Commission has therefore asked Italy to resubmit its budget. Failure to do so would allow the Commission to launch an "excessive deficit" procedure that could result in a fine of up to 0.5% of GDP. Needless to say, various EU officials have made indignant statements rebuking the

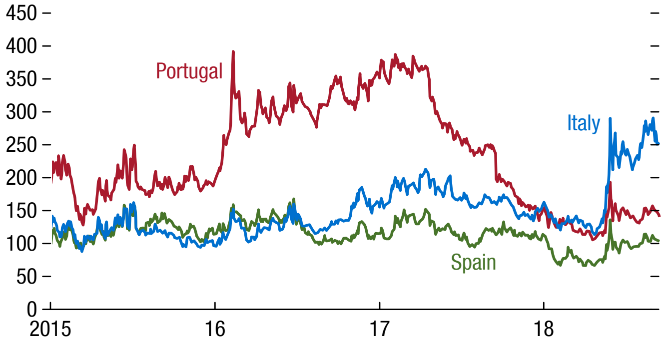
3 Ch. Dustmann, Eichengreen B. et al, 2017, Europe's Trust Deficit: Causes and Remedies, Monitoring International Integration 1; available from https://cepr.org/sites/default/files/Europes_Trust_Deficit_Press_Copy.pdf.

4 T. Boros, Gyiori G., 2018 Populism Report, Q2 2018, April-June.

5 EC, 2018, European Commission requests that Italy presents a revised draft budgetary plan for 2019, Press Release, 23/10/2018.

6 Ibid.

Figure 3 – 10-year sovereign spreads to German government bonds (basis points)



Source – IMF Global Financial Stability Report, 2018 (p.28)

Italian government[7]. A battle of wills between the Italian government and the European institutions is unfolding.

So far, public opinion in Italy is firmly behind the government, with its approval ratings climbing in line with the country's borrowing costs. This is perhaps not surprising given the low opinion the Italians hold for the euro and the EMU. According to the Eurobarometer, in March 2018, 29% of those asked whether they were for or against the euro gave a negative answer, while 10% refrained from answering. This was the highest rate of dissatisfaction with the EMU recorded amongst the Eurozone member states[8].

The financial markets, on the other hand, are becoming hawkish, as the spread between the Italian 10-year bond and Germany's equivalent Bund is steadily climbing upwards (Fig. 3).

So, how is the Italian factor expected to influence the future scenarios for the EMU? This is the question that is on everybody's mind, whether they are in Rome or in Brussels. Certain considerations are pertinent in this respect:

- Italy is not Greece. It is a founding member of the European Union and of the Eurozone, and the third largest economy in the Eurozone, after Germany and France. In comparison to Greece, its economy is nearly 10 times bigger and its public debt, seven times higher.
- Post-crisis adjustments of the Italian economy have been difficult, even more so in view of the EMU constraints and the German adherence to strict ordoliberal rules.
- The Italian treasury already issues bills of small denomination used as a means of payment in dealings with the state, the so-called "mini-BoTs". Although these are conventionally used as an electronic means of payment, they could also be printed. Thus, the redenomination risk is not completely unthinkable.

So far, the EU has relied on the financial markets to restore order and to bring the Italian government back to its fold. It is conceivable that the Italian government is also counting on the same factor to pressurise the EU leaders. Irrespectively of who blinks first, however, the Italian crisis – the latest in the still unfolding Eurozone crisis – confirms what has been obvious from the start. The Eurozone architecture is not sustainable. Reforming it is not only imperative, it is also urgent.

RESPONSES AND SCENARIOS

During the crisis, the Community method of decision-making was largely replaced by a hierarchy composed of France and Germany. This was then followed by growing German unilateral leadership. The election of Emmanuel Macron to the presidency of France in 2017 led to the hesitant re-emergence of the Franco-German axis.

Soon after his election, Macron presented his plan to restructure the EMU. His ambitious idea was to take a big leap toward a Eurozone fiscal union, with a common treasury and a single finance minister. This would enable, in his view, permanent fiscal transfers from the stronger countries to countries that are disadvantaged by the EMU. The Eurozone budget would be financed by contributions from member states' tax receipts, while a separate Eurozone parliament would provide political oversight and accountability. For such a plan to materialise, Germany would need to go along with it, a rather unlikely possibility.

7 Khan, M, J. Brunsden and M. Johnston, 2018, Rome rebuked by Brussels for breaking EU budget rules, FT, 18 Oct.

8 Standard Eurobarometer 89, The views of Europeans' on the EU's priorities, Spring 2018 Report, March (Table QA16.1, p.21).

Indeed, Macron's proposal fell short on two major stumbling blocks. The first one concerned the German diverging economic interests. As Schneider and Syrovatka have pointed out, "the gradual shift in the dominant internationalisation patterns of the German political economy within the European division of labour, away from S. Europe and France and towards E. Europe and the emerging markets…. entails severe obstacles for strategies aiming at a progressive Europe-wide productive development"[9].

The second obstacle is the fact that much of the German electorate is convinced that the Eurozone crisis is not one of interdependence but a morality tale ("hard-working Germans against profligate debtors"). The polemical campaign mounted in the early years of the crisis against the threat of mutualising debt has influenced public opinion considerably.

The German Chancellor, Angela Merkel congratulated Macron on his election, but she made it clear that she would not consider changes to Eurozone fiscal rules. Meanwhile, Wolfgang Schauble, the then Finance Minister, stated his preference for a "Stability Union", whereby the European Stability Mechanism (ESM) might be transformed into a European Monetary Fund (EMF). This would monitor the compliance of member states to the fiscal rules, possibly headed by an EU Finance Minister, but with no fiscal capacity or issuing of bonds.

By spring 2018, The New York Times noted that "Macron had a big plan for Europe. It's now falling apart"[10]. Indeed, Macron's ambitious proposals appear to have been shelved even though certain mutual concessions appeared possible at one point.

Interestingly, Germany's finance minister Olaf Scholz recently presented plans for a European unemployment stabilisation fund in response to Macron's call for reform of the EMU[11]. The fund's aim would be to stabilise Eurozone countries during economic crises that lead to significant job losses. All Eurozone member states would pay into the fund, which would then lend money directly to a national security system. If countries failed to repay the loans in a timely manner, their national contributions to the fund would increase and they would be excluded from further borrowing.

However, Angela Merkel's chancellery appears to be in disagreement. Her finance spokesman, Eckhardt Rehberg, rejected the idea, while senior figures in the CDU/CSU bloc are said to have also rejected it. On the other hand, the proposal has won backing from Mr Scholz's SPD party, while centre-left EU governments, such as that of Portugal and Slovakia, support it.

Overall, time is running out. This is even more so in view of the mounting external pressures on the single currency. Indeed, the euro was not designed as a geopolitical instrument due to the German concern that a strong international role for the euro might conflict with price stability. Thus "Trumponomics" – the decisions taken by US President Donald Trump and his administration – may hurt the EU economy unduly.

Such decisions include pulling out from the Iran nuclear deal, imposing tariffs on EU steel and aluminium, and threatening more duties on German cars. The European companies that defy US sanctions vis-à-vis Iran would be cut off from US financial and product markets, while the EU has no financial instruments to protect European companies. By contrast, it has long had a common stance on trade, thus allowing it to retaliate swiftly to US tariffs in the form of retaliatory measures. On the whole, the external pressures on the EMU are increasing, and they could test the euro and EU unity in the not too distant future.

EU finance ministers are due to agree on a package of Eurozone reforms by the end of 2018. An important proposal that completes the banking union, it concerns the creation of a European Deposit Insurance Scheme to protect up to

9 E. Schneider & Syrovatka, F. 2017, "Economic asymmetries and political paralysis in the Eurozone – Avenues and obstacles for progressive productive reconstruction", paper presented at the EuroMemo Conference, Athens, Sept.

10 S. Erlanger, 2018 "Macron had a big plan for Europe. It is now falling apart", April 19. Available from https://www.nytimes.com/2018/04/19/world/europe/emmanuel-macron-eu-reform.html.

11 G. Chazan & Khan, M 2018, "German finance minister advocates unemployment fund for Eurozone", FT, October 17.

€ 100,000 of savers' deposits in any Eurozone bank. This stumbles yet again on Germany's objections to risk sharing.

However, as Marcello Minenna, the head of the Italian securities regulator, has pointed out, risk sharing since the crisis has been a "twin bailout". This is due to the fact that the majority of the loans given to member states in distress bailed out not only the states themselves, but also the French and German banks, which had heavily invested in their government bonds[12]. In this sense, the combination of risk sharing and risk mitigation has to be seen in tandem, and a balanced solution must be sought. This is even more the case given the Italian crisis and its ominous implications.

CHALLENGES FOR THE LEFT

The EMU is in urgent need of reform; its very survival depends on it. This is a unique opportunity for the Left to face up to the challenges and put forward its own proposals both in the public debate and in the political forum. How prepared is the Left to do so?

The first point that needs to be clarified concerns the European project itself. It would be fair to say that despite its problems, dissolving the EMU would come with incalculable transition costs for everyone involved. Disintegration is not integration in reverse. The chaotic and damaging Brexit discussions are but an indication of the ramifications of such a process. Therefore, the first challenge consists of providing alternative solutions to the euro's pressing problems.

The second point that has to be made concerns the "idealism vs pragmatism" dilemma, which often preoccupies the Left. On occasions, it may even represent a dividing line between different factions. However, we maintain that this need not be the case. In particular, such a dilemma, the existence of which is not being denied, may be reconciled via the establishment of priorities, timelines and alliances. In this sense, guidelines for reform must be set, although, their being achieved depends on the prevailing circumstances at any point in time.

By way of indication, such a set of guidelines would *de minimis* include the following.

- A principles-based policy instead of a rules-based one;
- Enhanced fiscal policy and public investment instead of the current fixation on austerity and deregulation;
- Mutualised bonds instead of the prevailing "each on their own" principle;
- A new mandate for the ECB instead of its political involvement, albeit "independent";
- Support for collective bargaining and trade unions instead of labour market deregulation.

The list of desirable guidelines could indeed go on. However, an important distinction needs to be made. Certain measures are necessary in order to stabilise the single currency, while others are needed in order to reshape its construction. The distinction is not clear-cut, which is why it needs to be borne in mind. Furthermore, it is relevant when it comes to seeking allies and setting out priorities.

Thus, reforms supported by other political forces, such as social democrats, which also run in the direction desired by the Left, may be supported. In doing so, the overall strategic goal of changing the shape and purpose of the single currency must not be lost sight of. In this respect, the role of social actors must be taken explicitly into account.

A serious hindrance in the implementation of the policies propagated by the Left is a lack of trust, which was intensified during the crisis. Closing the trust deficit in the sense of building a Poulantzian-type consensus is a challenge in itself. Furthermore, it is an element that would clearly differentiate the Left from other political forces. Therefore, it is worth pursuing with perseverance.

Last but not least, a multi-level governance model combining action on a European scale with that undertaken by individual governments is a necessary condition for the Left to face up to the challenges at hand. While not negating the significance of national structures and processes, the dominant economic system must be changed through

12 M. Minenna, 2018, "A look back: what Eurozone 'risk sharing' actually meant", Alphaville blog, FT, October 10.

a shared European process, given the duality that constitutes the European political system. This is all the more so in view of the far right-wing forces sweeping through Europe at present.

Merkel and Macron: Not So Different After All

An elite consensus on the Economic and Monetary Union is slowly developing and it is purely bad news.

Kenneth Haar, researcher and campaigner with Corporate Europe Observatory (CEO)

What are the elite proposals floating around in Brussels on the Economic and Monetary Union (EMU)? Or to flesh out who the hegemonic elite is in this context: what is the vision that captains of industry, the heads of the most powerful states and the main decision-makers in the Commission are rallying around when designing the future of the EMU and, indeed, of the EU as such? At the moment, the most debated concern the banks and the banking union. But, if we look just a bit further, we face some rather worrying ideas about fiscal policies and economic policies.

Our work in the Corporate Europe Observatory on the Economic and Monetary Union (EMU) started for real in 2010 when we sensed that the context of the euro crisis was being used to push through proposals that big business groups had lobbied for in the past with little success. One example is what we now know as the European Semester, the procedure by which the Commission and the Council scrutinise the drafts of next year's national budgets of member states and issue country-specific recommendations to bring them on track. At the outset, they were to be non-binding recommendations, but they are increasingly becoming weapons to force reforms thanks to a complicated interplay with other EU laws.

This idea – to have the EU institutions observe and correct budgets – had already been pushed by one of the most powerful lobby groups, the European Round Table of Industrialists, in 2002.[13] Back then, they did make some headway. In 2005, the idea was supported by then Commissioner Mario Monti of Italy and some of his colleagues. But, in the end, it was rejected outright by the Council as an attempt to encroach on national competences. With the crisis came the breakthrough. So, when I joined a conference in January 2011 in Brussels on this topic, I saw a very enthusiastic Monti who stated, "Thank you, Greek crisis".[14] The crisis had allowed an elite project that was already there in an embryonic form to take root and develop. And, while we were all horrified over the consequences of the crisis, quite a few elite voices were thrilled to see their project finally unfold.

And things would move quickly. We would see the European Semester strengthened in various ways with the Two-Pack. We would get stronger rules on the Stability Pact – the rule book that obliges member states to keep budgets below a deficit of 3% of GDP and below 60% of GDP in debt. Fines would come faster, and they would be higher. Then came the Fiscal Compact, which would deepen and strengthen the impetus towards austerity. We also got a Macroeconomic Imbalance Procedure that allows the Commission to threaten member states with a fine if they cross thresholds on some economic indicators, one of which is on productivity and, effectively, on wages. And then of course there is the Troika, which was developed as a quasi-EU body for legal reasons, but which was always a genuine EU institution anyway.

Obviously, all this should be seen as a way of dealing with the problems of a currency union that covers very disparate economies. According to most textbooks, such a setup sparks a debate about a "transfer union" and/or a stability union. In this debate, we see a very clear elite preference. At that echelon of society, the analysis of the crisis is quite clear:

- lavish public spending had left too few financial resources in the public purse to withstand the pressure from a financial sector in free fall.
- absence of reforms of the labour market exacerbated the crisis.
- a common currency requires fiscal discipline and structural reforms to prevent contagion.

There are tensions within the elite, but these three claims are hegemonic and guide political action. And what we see expressed in this strategy is something else as well: the current

13 European Round Table of Industrialists; "EU Governance", ERT Discussion Paper, 30 May 2002.

14 Mario Monti, speech at the conference "Towards integrated economic governance in the EU: The European Semester" in Brussels on the European Semester organised by the Commission, 12 January 2011.

dream of the elite to isolate economic policies from democratic decision-making. Nothing offers itself more clearly to that objective than the Economic and Monetary Union.

So, this is the reality as seen from the capital owners' view and from the point of view of most decision-makers in the EU institutions. A welcome opportunity for them to mould Europe according to this vision came with the crisis. Should anyone point to the immense social consequences, they would quickly respond that it is to be dealt with through more forceful implementation of "structural reforms", which means further budgetary discipline, flexible labour markets and attacks on social rights, including pensions.

And they have come far. The instruments at hand already allow them to do amazing things, and it's not just about Greece, Ireland, Portugal and the others. I would highlight the elegant way in which labour market reforms were forced on France.[15] As you know, we have seen a direct attack on labour rights in France since Hollande's last days and during the reign of Macron. This agenda was in no small part sparked due to pressure from Brussels, starting with the European Semester and, since then, backed up with the threat of fines under the Stability Pact and Macroeconomic Imbalance Procedure – under that procedure, they saw France going over the thresholds defined by the European Commission (labour costs per unit). There were even negotiations between the German and French governments about the reforms.[16] This is in no way an attempt to exonerate either Hollande or Macron, but to ignore the role of the EU institutions would be a serious mistake.

But more wants more, and from an elite point of view the reforms adopted since 2010 are only the first steps. The perception is, and rightly so, that the crisis is still with us on many levels and that the euro will still be fragile in the future if no action is taken. The question here is what the next move will be. We don't know that yet for sure, but there has been an intense debate for almost five years now on what it should be. And, judging by the speed so far, it looks like the debate will be with us for a while. In June this year, Merkel and Macron announced that they would present a large proposal, but in the end, that didn't really materialise. This is not the first time something big has been announced for it to then be reduced to a timid press release. Still, there is momentum and, in the eyes of business groups, the European Commission and the majority of heads of state alike, this is a mandatory assignment. Sooner or later we will see another overhaul of the Economic and Monetary Union. And though there are differences between the proposals, I don't see why the European elite would not come up with something substantial within the next five years or so. The main controversy is over whether we should be heading for a transfer union or a stability union. Clearly preferences are different, but it would be a mistake to believe there is a sharp contradiction between the proposals discussed and the positions that can be identified at the top level in EU member state governments and among EU decision-makers in general, including the Commission.

So, what are they suggesting? Let's take the main players and start with the Five Presidents' Report, signed by the presidents of the Commission, the Council, the European Parliament, the Eurogroup and the European Central Bank, the document that set the present debate in motion:

- It implies a more intrusive use of the Macroeconomic Imbalance Procedure.
- The European Semester should be strengthened, though it is unclear how.
- Adoption of "a set of common high-level standards" to secure convergence towards "more resilient economic structures".
- The founding of a "European Monetary Fund" to replace the European Stability Mechanism – with the same or even more hawkish features than the IMF.
- The adoption of a Stabilisation Mechanism "to better deal with shocks". It "should not lead to permanent transfers", and it should "be tightly linked to compliance with the broad EU governance framework".

So, all in all, pretty vague and middle of the road from an elite viewpoint. But it has already started working in several ways, and this agenda is being more or less followed by the Commission that presented a stack of proposals in December 2017. They include:

15 Corporate Europe Observatory; "How the EU pushed France to reforms of labour law", June 2016.

16 Mediapart; "Comment l'Europe a pesé sur la loi el Khomri", 12 June 2016.

- A European Monetary Fund
- Reforms of existing EU funds to further promote structural reforms
- An integration of the fiscal compact into EU law (providing for new disciplines, etc.)
- A stabilisation mechanism in the form of an investment protection scheme
- A European Finance Minister

And then there are the governments in the Council. First, there is the German government with a pretty straightforward preference for a "stability union". Any new step on the path to "completion of the EMU" has to strengthen the ability of the EU to discipline member states' economic policies and budgetary policies. Structural reforms are the order of the day, and the German government – the CSU-CDU, in particular – has long since proposed the empowerment of a new Super Commissioner to even reject member states' budgets if they are too expansive or if they do not contemplate "structural reforms".

The question is if there is another position at governmental level. Is there a separate French project? Are there other groups of member states with different visions?

Here, the discussion gained new energy with the election of Macron, thanks to his eagerness to pick a fight with the French trade unions and his bold attempts to set the agenda for the EU in tandem with the German government. Some of his statements point to a great deal of common space with the historic partner in the so-called Franco-German axis. He has no taste for a genuine transfer union, supports a European Monetary Fund (along Troika lines), opposes debt mutualisation and is sceptical to an EU stabilisation mechanism, but willing to go into discussions if it is linked to structural reforms.

So, who is there at the other end? There is nothing to suggest that Macron heads a kind of democratic and social pole in the European theatre. He has already proven to be hawkish on structural reforms, and if you look at his famous Sorbonne speech in September 2017, the one where he outlined his European vision, he places himself firmly within the elite consensus:

"…the fundamental goal is not to find a mechanism that will magically solve all our problems. If there were one, we would have already created it. It is not to pool our past debts, nor to solve public financing problems in one state or another; it is to reduce unemployment… To achieve this, we must all assume our responsibilities, which is why, in France, we have begun unprecedented reforms – I announced them, and the government is now implementing them. […] and in light of what we are doing in France, I will not allow anyone in Europe to say that France now has no legitimacy to propose measures."

The last sentence is quite interesting. It bears witness to an unease at government level in France: that the criticism from EU "partners" and the Commission on perceived French inaction with regard to labour reforms had put them in a corner and bereaved them of any real power in the Council. Now, with a fresh attack on labour, prestige is re-established, and Macron can capitalise on it by putting himself at the heart of the debate on the future of the Economic and Monetary Union, and hence the EU. This creates space for him to launch ideas like a European tax base (environmental tax or digital tax) and a European Finance Minister subject to strict parliamentary control at the EU level. They are not consensual ideas, for sure. But they do set Macron slightly apart from German priorities, although the divide should not be exaggerated.

There are other players. There is a northern group that is cautious in terms of new comprehensive reforms, but broadly supportive of the German position. And there are scattered remarks coming from governments in the south about flexibility. But the point is this: there is no sign of an alternative, coherent position.

And then, of course, there is the business community that has pushed for stronger enforcement of the recommendations under the Semester, stronger enforcement of the budgetary threshold levels, and more investments. But for the main part, the fault lines run between a French and German position.

But what is the status, then, of Macron's proposals? In June 2018, Merkel and Macron signed a common statement, the

Meseberg Declaration,[17] that indicates a great deal of common ground. A eurozone budget is to strengthen "competitiveness and convergence". This sounds mostly like a new way of strengthening the stability union. And the amount in this pot – "lower double digit" of billions of euros – appears to make this a minor event in the forging of an elite consensus. That consensus has the following traits:

- No transfer union, but pots of money for "structural reforms".
- More forceful mechanisms in the making to promote "reforms".
- Centralisation and de-democratisation of economic policy – with common and strict rules on economic and budgetary policies, monitored and upheld by the European Commission or other independent EU bodies.

My feeling is that, sooner or later, we will have to face further proposals along these lines. At the elite level, muddling through is not considered an option. We could very well be on the brink of major new steps, which implies a "bureaucratisation" of economic policy.

From my perspective, this is all about new and stronger ways of deepening an attack on social rights and welfare. This does not necessarily mean there will not be a sweetener at some point – small funds for nice purposes, flexibility when absolutely necessary, parallel social initiatives – and some are prepared in the area of the so-called social pillar. But, at the moment, it seems as though all these ideas are so timid, they hardly deserve a mention.

The question, then, is what the counterstrategy is. For now, let's face it, there is no such thing in an elaborated form at the top level of European politics. And while there are many good ideas floating around on the left and the progressive part of the political spectrum in Europe, there are severe political splits at play as well. But I feel confident that as elite plans develop, there will be a strong popular response and, on the back of that, a political response will emerge.

17 The Meseberg Declaration, 19 June 2018, https://www.diplomatie.gouv.fr/en/country-files/germany/events/article/europe-franco-german-declaration-19-06-18.

Different Scenarios for the Future of the Monetary Union.

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The EU is arguably in its deepest political crisis ever. Against the background of the modest economic upswing over recent years, in contrast, the European Monetary Union (EMU) appears to have recovered from its turmoil in 2010 ff. Below the surface, however, the crisis goes on as none of the more fundamental problems that endangered this shaky construction has been solved so far.

The root of these problems can be traced back to the organisation of the European single market in which member states are to compete against each other as if they were companies. It is actually a competition union, rather than a solidarity union, which would be a union of economic cooperation and mutual support. The logic of a competition union fosters a dynamic in which sooner or later the strong economies get stronger and the weak economies get weaker. Given the size of the EU budget — roughly 1 per cent of EU GDP — this dynamic cannot be outweighed by EU cohesion and structural funds. What has made things even worse has been the reinforcement of these neoliberally inspired principles since the beginning of the Eurozone crisis by the intensification of the Stability and Growth Pact through the "Fiscal Compact" and the other elements of the "new economic governance". Given the lack of monetary policy competence at national levels within the Monetary Union this construction has proved to be a powerful driver towards what I like to call "divisive integration".

By now, hardly anybody — neither on the right nor on the left — would disagree that the next crisis can turn out to be another deadly threat to the EMU. And who knows what could be the trigger of that crisis. Italy may be the best suspect at the moment. But it might as well be system-relevant Spanish, French or German banks engaged in emerging economies. Anything is possible.

Against this background it makes sense to take a look at current policy approaches at governments' levels before turning to left wing views on the future of the European Monetary Union. The interesting observation here is that, while the ruling elites are in deep strategic troubles, the disagreements amongst them appear to be easier to overcome than amongst their left-wing critics. Nevertheless, the fissures and cracks in the camp of EU governments should be taken into account of when it comes to agree on feasible approaches on the left.

1. STYLISED APPROACHES OF EU GOVERNMENTS

If we look at current views on how to tackle the problems of the EMU, we can distinguish four to five different policy approaches at EU and national levels. In what follows, I will stylise them with a broad brush.

1.1 THE NORTH COAST ALLIANCE

From the beginning of the Euro crisis, German governments used to be the leader of the alliances of hard core neoliberals within the Eurogroup. Thanks to Macron, this is no longer the case. Over the past few months, the lead has been taken over by a "north coast alliance", as one may name it, spearheaded by the Dutch government, supported most actively by Nordic and Baltic governments. The hard core sticks to all essentials of the Stability and Growth Pact and its intensification from 2010 onwards, i.e., no Eurozone budget, neither public nor private risk-sharing, no bail-out — unless under Troika dictate. These governments criticise explicitly the German government for trying to find a common language with the French government.

If the approach of the north coast alliance prevails, the next crisis will most probably provoke either a break-up (or break-down) of the EMU, or a north-south-split, or at least exits of individual countries with all their unforeseeable implications for the EU as a whole.

1.2 PRAGMATIC NEOLIBERALISM

In the field of monetary policy (and only there!), a more pragmatic, anglo-saxon style neoliberal approach has been typical for the ECB since Draghi stepped in. Beyond monetary policy hard core neoliberalism prevailed, as demonstrated by the Troika dictates (in which the ECB played an important role). Against the background of the more recent economic recovery, however, the EU Commission has more and more tended to take advantage of the slightly greater economic leeway to think about how to prepare the EMU for the next crisis. Elements of this tentative turn towards more pragmatism and flexibility within neoliberalism are the ideas about the extension of the European Stability Mechanism (ESM) towards a European Monetary Fund (EMF), providing more capacities to support counter-cyclical measures in individual crisis-ridden countries, and to rescue individual banks (beyond the capacities of the so-called banking union). The concept is explicitly borrowed from the U.S. where the Federal Government can make use of a "rainy day fund".

These ideas are inspired by the anti-crisis measures taken in many countries in 2008/2009 at national levels. They were given up at the beginning of the Eurozone crisis in 2010 when the European Council launched an authoritarian neoliberal approach based on the aggravation of the Stability and Growth Pact. This triggered the double-dip crisis in most Eurozone countries and the deepening of the crisis in so-called "programme countries" under Troika dictate. In principle, picking up the approach of 2008/2009 and transferring it to the EMU level makes sense, even if the capacities of the future EMF are totally unclear. The main problem, however, is that the Commission and its supporters at national levels stick to the basics of the Stability and Growth Pact. That is, the alleged need of austerity and labour market deregulation is not called into question. The most probable implication is that the infamous conditionality under which individual governments would be supported by such an EMF (following the equally infamous tradition of the IMF) would stick to the "surveillance" criteria laid down in the "Fiscal Compact" etc. and would follow closely to the country-specific recommendations within the European Semester.

Nevertheless, it is unclear to what extent the more pragmatic approach of the Commission is supported by the majority of the EMU governments. There are some supporters in the south in particular, while other governments have remained silent or hesitant so far. Explicit opposition comes from the north coast alliance, while the position of the German government has become fuzzy, mostly for political/strategic reasons (see below). Nevertheless, any shift in emphasis towards a more pragmatic approach could help to avoid a break-up of the EMU in the next crisis. But all the deeper problems remain. And most importantly, pragmatic neoliberalism as such would not provide greater room for manoeuvre to progressive governments in "periphery" countries like Greece, Portugal or Spain. True, applying for help from the EMF is supposed to be organised under softer conditions than current Troika dictates. Nevertheless, if the respective governments would not comply with "the rules" and the country-specific recommendations, they would most probably provoke harsh conflicts. But, as I will point out later, these conflicts are the only possible door-openers for progress from a left perspective within the EMU in particular, and the EU in general.

1.3 DYNAMIC NEOLIBERALISM CUT BACK

The combination of a clear-cut neoliberal "reform" programme in France with a dynamic approach at EU level has been Macron's "mission" from the outset. Again, given the neoliberal basics of the French government, it sticks explicitly (!) to the "rules" of the Stability and Growth Pact, the "Fiscal Compact" etc. and the conditionality involved. The flexibility proposed regarding the practice of the conditionality is very much in line with the Commission's approach. There are two major elements, though, in which Macron in his more fundamental statements (in particular his famous Sorbonne speech) went beyond Juncker's proposals. First, the idea of a separate, and substantial, Eurozone budget. Second, the idea that this budget should to be decided upon, and controlled by, a Parliament at Eurozone level.

As I see it, the latter element could be (or maybe: could have been) crucial within a progressive perspective. A democratically controlled important investment budget has been a core element of most left-wing proposals aiming for substantial reforms either within or beyond the EMU over the past few years. If this was put into practice it could be a useful starting point for progressive initiatives and public debates at national levels about strategies geared to foster economic and ecological renewal, irrespective of the political background of the French government which made this possible.

In the meantime, the Macron initiative has taken an ambiguous turn. Both French and German governments continue to regard their joint policy approach at EU level as crucial for the future of the EU. Thus, the German government — after one year of hesitation — has started to try and find a common basis with the French government.[18] The result is that Macron's initial approach has been cut back to option 2, that is, to a somewhat more flexible neoliberal approach. Core elements of the German-French compromise are the upgrading of the ESM to a supervisory institution and a safety net for crises in individual countries, the affirmation of conditionality on the basis of the "rules", and the definition of a Eurozone budget whose size is to be negotiated in the framework of the next EU budget for 2020 ff. (which marginalises the size of this budget and dumps the concept of greater direct parliamentary involvement). Thus, what is left of Macron's initiative can be summarised as successful containment by the German government (and maybe other actors like the European Commission).

Nevertheless, the governments in Greece, Portugal and now also Spain may try to benefit from this slight shift in emphasis (which reflects, maybe symbolically, in the fact that the Portuguese Minister of Finance has replaced Schäuble's snappy lapdog Dijsselbloem as the head of the Euro-Group). These three governments follow an approach of "don't attract attention" or "under the radar". They may be trying to use the slightest leeway for greater engagement in public investment and social expenditure while avoiding any conflict with Brussels or Berlin over this. Even though we are talking about millimeters here there can be no doubt that these millimeters do matter for the people in these three countries.

1.4 THE ITALIAN ENIGMA

The fourth approach (or the fifth one, if we consider the just mentioned "under the radar" as an approach in its own right) is the one announced by the new Italian government. It calls for a re-negotiation of the Stability and Growth Pact, which within a progressive (!) perspective would (!) be more than useful. It is unclear, however, what this strange coalition in Rome would use it for. The priorities of that government discernible so far include military barriers in the Mediterranean against refugees, and an extremely neoliberal tax policy at home (it should be noted, ironically, that the „flat tax" is an idea which was pushed for some 15 years ago in Germany by hard core neoliberals who were quite powerful within CDU and FDP but eventually did not succeed). For the left-wing forces in other countries and at EU level, this would be the worst possible argument for a reform of the Stability and Growth Pact. Nevertheless, given the difficult economic background in Italy and the legacy of domestic policy failures from the 1990s[19], it is totally unclear what is going to happen once the Italian government starts to knock on Brussels doors. Maybe they will begin to "behave reasonably", but maybe they turn out to be a time bomb.[20]

Again, it is not a left-wing but a by and large right-wing government which dares to provoke (as do its counterparts in Hungary or Poland in different areas of conflict). In case a conflict between Rome and Brussels actually evolves out of this, it will be interesting to see if the "under the radar" governments can take advantage of it, and whether they try to do so in the first place. So let's see what's going to happen. But we should not *wait* and see. Because these fissures and cracks in the camp of the ruling elites do matter for left-wing policy approaches.

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18 It should be made clear that this has nothing to do with the party composition of the current German government. Olaf Scholz, the leading SPD politician who is now Minister of Finance, has been a dedicated follower of Schäuble all over the Eurozone crisis and is a true believer of the virtues of austerity. Referring to the German version of the EU fiscal pact, the so-called „debt brake" which has been enshrined in the German constitution with the support of all Bundestag parties except for the Left Party, he stated in an interview with FAZ (27.2.2012) that: „No one really understands yet what a dramatic paradigm change we made with the debt brake. The much heralded ‚lean state' will come about of its own accord." That is, at the German domestic level nothing substantial has changed so far, except for rhetorics.

19 For a summary of these failures within the context of the EMU see Simonazzi, Annamaria (2015), Italy's long stagnation, in Lehndorff, Steffen (ed.), Divisive integration. The triumph of failed ideas in Europe – revisited, Brussels, ETUI: pp. 69-94. Available online: https://www.etui.org/Publications2/Books/Divisive-integration.-The-triumph-of-failed-ideas-in-Europe-revisited.

20 Of course there are more than just this time bomb. Some of the central and eastern European governments in particular follow the approach of „give us the cohesion funds and stay out of our business". Since they are not members of the Eurozone I can skip this here. Nevertheless, this is an important part of the deep political crisis of the EU.

2. NO ESCAPE FOR THE LEFT

Even if we need a magnifying glass to distinguish the differences between the dogmatic and the more flexible options within the neoliberal realm of approaches we must be aware of the fact that they may be of substantial importance for those governments who need more leeway for fighting social inequality in their respective countries. If we take the example of Portugal, the policies of the current government are far from what we may regard as a substantial turn to the left, but it is equally obvious that for any further step beyond the current modest shift away from austerity and labour market deregulation in that country the additional room for manoeuvre provided by a more flexible implementation of the Stability and Growth Pact can be crucial.

This reasoning leads us to the question what such further steps beyond current modest shifts away from austerity and labour market deregulation (such as the ones in Portugal, but also most tentatively in Greece, and maybe in Spain in the near future, too) should look like. What are left-wing strategies towards economic and ecological renewal in our countries, which are the cornerstones of these strategies in terms of so-called "industrial policy" and public investment? Has the left really spelled this out already?

To put it bluntly, from what I know my answer would be: not really. True, there are some interesting and very important steps in that direction — for example CGIL's "piano del lavoro" of 2013 or, in much greater detail, the recently published comprehensive "Growth Strategy for the Future" of the Greek government. While it is still an open question how such plans can be put into practice, the crucial importance of such progressive plans is obvious. They should be regarded as a first attempt to answer one very simple question: *Why do we ask for huge investment budgets and transfers at EU level if we wouldn't know what to spend the money for?*

My impression is that large swathes of the left — and I am not *only* talking about my own country — are much more active in blaming neoliberal EU policies and repeating anti-capitalist convictions than getting down to business, that is, focusing on the most urgent reforms in their own country.

One reason for this policy gap on the left may be that many progressive people are traumatised by the Greek experience of 2015. We should keep in mind, however, that the balance of powers in this case was, and continues to be, extremely unfavourable, to say the least. In terms of economic importance and of political power within the EU, Greece is unfortunately a marginal and vulnerable country whose government can easily be blackmailed by the ruling elites. Economically, the starting point for the Syriza-led government must be regarded as a worst case scenario.[21] And politically, the situation in the first half of 2015 was such that the Greek government was facing an army of tanks. Which, by the way, would not have been better outside of the Eurozone or the EU — in that case, a progressive Greek government would have had to deal with "the markets" in general, i.e. the allegedly anonymous actors on the financial markets, and the IMF in particular (and we should not believe that there is any difference between having to confront the IMF alone or as one part of the Troika).

But irrespective of this trauma, it is true that any more radical turn towards economic and ecological renewal would get in conflict with the "rules" of the EU, its treaties and its monetary union. This is why progressive governments must get prepared to neglect and even violate these "rules", if necessary for social and democratic reforms in their countries, and for opening the doors towards economic and ecological renewal. The only choice they have is to either fight against international financial market capitalism by the means of the nation state of the respective country, or to fight against an *institutionalised* neoliberalism within the EU and the Eurozone. The former is a fight against alleged "inherent necessities of globalisation" etc.,

21 For an overview on the roots of the disastrous economic situation Syriza had to confront when it came into government see Karamessini, Maria (2015), Greece as an international test-case. Economic adjustment through a Troika/state-induced depression and social catastrophe, in Lehndorff, Steffen (ed.), Divisive integration. The triumph of failed ideas in Europe – revisited, Brussels, ETUI: pp. 95-126. Available online: https://www.etui.org/Publications2/Books/Divisive-integration.-The-triumph-of-failed-ideas-in-Europe-revisited.

while the latter is an explicitly *political* fight. I would prefer the latter option.[22]

If we see it this way, it becomes self-evident that the basic condition for entering this fight is a majority at home for progressive changes at home. This sounds trivial. But if we look at the omnipresent complaint about the evil EU that blocks any progress at home, pronounced by a minoritarian left in most of our countries, it is not. The more difficult it gets for the left, the more attractive it is for many to escape into the realm of convictions. It may be helpful for preserving one's identity, but the political impact is marginal.

3. CONCLUSION

If we look at current debates on the left, there is neither disagreement about the disastrous effects of the dominant EU policy approach, nor about the neoliberal foundations of this approach in the way the Single Market and the Monetary Union are constructed. The controversial debates are about the consequences of this shared analysis. One shortcoming in these debates, as I see it, is the implicit assumption that the future of the EU or its Monetary Union can be regarded as if it were independent of the policies of the governments in our respective countries. If we neglect the fact that we are too weak to exert pressure on our government we tend to use the EU as a scapegoat for our weakness at home. My point is that we should pay more attention to the links between politics at national and at EU levels.

This is why I think that the fissures and cracks regarding the future of the Eurozone in the camp of the overwhelming neoliberal majority within the EU, if only discernible with a magnifying glass, provide for stepping stones for the left — small, but important ones. It is the first opportunity since July 2015 to regain a certain momentum for progressive reforms of the EU and its Monetary Union. *The starting point, however, must be to gain more support at home for progressive alternatives at home.* The more we succeed in urging our governments into conflicts with EU politics and "rules", the closer we will get to put the crucial question on the agenda: *What has to be changed at EU level in order to make the EU helpful for, rather than being a barrier to, progressive change in our respective countries?* It is on this basis that some day we can build progressive "alliances of the willing" amongst EU governments. It definitely sounds utopian but I couldn't think of any more realistic option.

I do agree that the single most important contribution in this direction must come from Germany. Any progressive change in my country is crucial for easing progressive change in other EU countries, thus opening the doors for democratic reforms of the EU as a whole. But I am sure we all agree that this is a necessary, though not a sufficient condition. So instead of complaining about the neoliberal EU making any progress impossible, let us do our homework in each of our countries which is the best way to make, sooner or later, the reform of the EU Treaties, the Stability and Growth Pact and the Monetary Union a key issue on the political agenda. On this way, we will have enough time to test in practice the solidity of the EU barriers against progressive reforms in our countries, and to discuss the most urgent reforms of the EU geared to overcome these barriers.

22 I have developed this argument in greater detail in my contribution „Renewal of the EU by neglecting or breaching the rules: The case for a third way" to the transform!europe eDossier „Re-appropriating Europe as a Common" (July 2018). Available online: https://www.transform-network.net/fileadmin/user_upload/edossier_marseille-4.pdf.

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