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### A fiscal union would not complete EMU

The present debate presents the EMU as an incomplete structure. Lacking independent monetary policy, and absent the stabilizing effect of a true federal budget, Member States are vulnerable to asymmetric shocks, leading to higher risk of economic and financial instability. Deeper fiscal integration within the Eurozone is regularly proposed as key remedy for this shortcoming. A Fiscal Union would entail mechanisms of fiscal risk-sharing between Member States and —as a prerequisite for such risk-sharing— stronger controls over Member States' fiscal and macroeconomic policies.

It is easy to agree that EMU is, in some ways, incomplete. In particular, the Eurozone's fragmented financial landscape remains a clear source of instability. While on the regulatory side, the Banking Union has taken important steps forward, the same cannot be said about progress on cross-border integration of the banking industry. European banking continues to be largely national, making financial sectors overly exposed to the same asymmetric shocks as their domestic sovereign. Further, compared with the US and other well-developed monetary unions, the role of European capital markets in cross-border risk diversification

remains small. Consequently, asymmetric shocks are absorbed primarily nationally, and the coincidence of sovereign distress and financial instability remains high. Fixing this is by far the most important part of creating a stable EMU.

In contrast, the significance of fiscal integration for the stability of EMU is much less clear. Contrary to the popular perception, evidence from major federations consistently shows that the role of the federal budget in smoothing state-level fluctuations is actually small, and even that small contribution tends to deal primarily with symmetric (ie. federation-wide) shocks. For state-level asymmetric shocks, the primary focus of the European discussion, the federal role tends to be almost nonexistent. On this evidence, it is difficult to see how the lack of federal level fiscal stabilization could be the missing element from a complete EMU.

There is another, deeper reason why a fiscal union alone might not only fail to stabilize EMU but could instead add new fragilities to it. Compared to other dimensions of integration that are part of EMU, such as monetary and financial regulatory integration, fiscal integration is fundamentally different. Whereas monetary policy and financial supervision are, in all developed countries, administrative tasks delegated to non-elected experts, fiscal policies remain everywhere in the hands of elected politicians. In national elections, budgetary programs constitute a key part of parties' electoral platforms. They are what mobilize people to vote.

This is a key difference. Common monetary policy and the Banking Union shifted responsibilities from national expert bodies to European expert bodies and thus had little if any effect on the democratic politics of the participating Member States. In contrast, fiscal integration would shift responsibilities from national elected bodies to the hands of European non-elected bodies, thus narrowing the scope of democratic decision making. The risk here is hollowing out of national democratic life. Taken too far, the outcome could be alienation and apathy among voters and, eventually, voter backlash with unpredictable consequences.

A stable EMU cannot stand on unstable political foundations. An effective and democratic fiscal union is only possible together with a much stronger political union. This is not about symbolic changes such as a European Finance Minister but about far more fundamental reforms. It is about creating a true European political space, with true European political parties with complete political programs, a true European media that can hold European politicians accountable, and a deep European civil society to channel citizen participation. Such a political union remains a long-term prospect, at best. Therefore, steps towards deeper fiscal integration should be taken with caution. ●