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Finance, sovereignty and a pangolin

Sovereignty is a concept that refers to states. It usually designates an exclusive power on a territory and a population, limited only by its own international commitments. The European Union (EU) has a genuine character, it is not a state. From an institutional point of view, the EU combines elements of a federal state such as a federal Central Bank and a common legal order under control of the Court of Justice, and elements of international cooperation, such as unanimity of member states.

In the financial field, the EU has nevertheless already achieved a lot. The creation of the "banking union" in 2012, with a single rule book and a common supervisor, was a major step forward, even if it is still a work in progress. Large cross border investments are now needed to finance greener infrastructure, digitalization and costs linked to ageing. In times of crisis, it is also critical not to be dependent from banks located outside the common legal framework. Banks have played a crucial role throughout Europe by channelling state guaranteed loans to business and industry. The joint supervisor (SSM) and the European Systemic Risk board (ESRB) have contributed to a more coordinated response in terms of pay backs and dividends. Persistent fragmentation partly explains the lack of cross border mergers. It is also damaging for the economy, as pan European banks would be a powerful catalyst for growth and development, scale effects boosting intermediation, specialization and productivity. Profitability of European banks remains lower than those in the U.S.

The European Commission intends to facilitate further the integration of capital markets. This initiative could help to better mobilize European savings for investments. Hundreds of billions of Euros could be made available for European projects, with positive side effects such as increasing private risk sharing and facilitating the transmission of monetary policy.

The decision taken by the last European Council to create a recovery fund constitutes a quantum leap. The cross-border recovery fund renews the promise of stability already enshrined in the treaties, which means a lot for investors: the EU, the euro are here to stay and the Union is indeed becoming "ever closer", providing grants and loans. Until now, the EU had a single currency but no treasury, no significant common budget, very few bonds issued in common. Though exceptional, the recovery fund linked to the EU budget, partly financed by jointly issued debt, as well as the creation of EU own resources, confirm that the euro is irreversible. It does not only provide help for countries severely hit by the COVID-19, it provides insurance for a common future. The evolution of spreads even before the money is distributed, shows that the message was well received by markets. Disputes between the "frugal" and the "southern countries" are minor in comparison with the political shift this decision represents. It is perfectly normal that the countries with strong ratings ask for conditionality. It is also legitimate that, in an Union based on cooperation, wounded peoples receive help from the partners.

The cumbersome decision-making process of the EU could certainly be improved. However, it would be a mistake to continue to oppose an uncompleted EU with fully fledge sovereign states. Europeans share an incredible savoir-faire in transnational governance, at a time where it is needed more than ever. In 2020, few states, if any, are entirely sovereign. Interdependence is the new reality. When markets are interconnected, financial crises ignore borders. Global value chains, as well as global phenomena like climate change or pandemics put the state-based world order into a new perspective. Everywhere national rhetoric insists on taking back or keeping control. Let's be pragmatic and remember that a pangolin may suffice to block the world economy. ●