

The Economic and Monetary Union (EMU) is an incomplete policy regime because monetary policy has been delegated to the European Central Bank (ECB), while fiscal policy remains in the hands of the Member States (MS). The European Union (EU) has only a small budget (De Feo 2017), which prevents it from exercising a macroeconomic stabilisation function (De Grauwe 2014). It has therefore repeatedly been argued that **the EU needs more powers in fiscal policy. But which institution(s) should exercise which powers?** This is where the 2017 proposal by the European Commission to create a European Minister of Economy and Finance (EMEF) comes in.

The proposal envisages the EMEF as a **member of both a supranational (serving as a Vice-president of the Commission) and an intergovernmental (presiding over the Eurogroup) institution**. He or she would also chair the Board of Governors of the European Stability Mechanism (ESM). Appointment and dismissal would follow the rules foreseen for the other members of the Commission. **The EMEF would have four main tasks:** 1) external economic representation (for the euro area and the EU); 2) policy coordination and supervision of fiscal rules (euro area/EU); 3) fiscal policy decisions (euro area); and 4) oversight of budgetary instruments (euro area/EU).

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The EMEF appears not to have well-defined powers as far as budgetary decision-making or enforcement of rules is concerned (Xanthoulis 2018). He or she would also not manage a substantial budget (Schlosser 2019), thus being unable to solve the situation of 'representation without taxation' that currently applies to the EU. Moreover, it is unclear how the EMEF would be able to move between different countries and different institutions. The recent eurozone crisis has shown that the MS have different perspectives on what they want from EU integration. It will not be easy for the EMEF to identify a general interest that fits

both the euro area and the non-euro area MS.

Agreement between the Commission and the Eurogroup on the appointment and dismissal of the EMEF cannot be taken for granted. Similarly, **it is not evident how the EMEF could oversee and coordinate the excessive deficit procedure** within the Stability and Growth Pact (SGP). Given the connection to both institutions involved in the EDP (Commission and Council), the EMEF might end up aligning with the one taking the ultimate (political) decision - that is, the Council - and find it difficult to bring in a separate position.

The positions of two large MS - Germany and Italy - that are founding members of the EU and have followed all the steps of integration taken to date, are key to any attempt to reform the euro area. When dealing with EU reform proposals, the literature also tends to focus on the contrasts between Germany and France. Germany and Italy are of particular interest because they developed a different reading of the euro crisis.

Comparison of Germany's and Italy's positions

Since the beginning of the euro crisis, Germany has shown 'fear of provoking moral hazard and lowering incentives for reforms' (Schwarzer 2018: p. 50). **Emphasis has been placed on risk reduction, crisis prevention and solidarity through conditionality** (Jones 2018). Germany has also criticized the SGP as involving too much political discretion by the Council.

The 2018 coalition agreement took up the country's traditional view that 'national budgetary responsibility and supranational, shared liability are irreconcilable' (Konrad-Adenauer-Stiftung 2014: p. 103). The EMU should (continue to) work through a connection between risk (in the sense of MS control over competences) and liability for national decisions (*Haftungsverantwortung*, Coalition agreement 2018: p. 9).

Even in the absence of an explicit statement in the last coalition agreement, Germany is likely to apply its rule-based approach to the EMU to the EMEF as well. It is in favour of an apolitical EMEF that supervises and enforces MS compliance with the deficit and debt rules of the SGP. Correspondingly, it is against the EMEF's use of budgetary resources to counter asymmetrical shocks. **The aim is to depoliticise the surveillance of national fiscal policies.**

Interestingly, neither Germany nor Italy strictly opposes further delegation of competences on economic and fiscal policy to the EU. Hence, in principle, they do not oppose the creation of an EMEF. Their approach is radically different, however.

Italy has read the crisis as being caused by speculative attacks on financial markets. Thus, unlike Germany, **it has different priorities, which include risk sharing at the EU level, crisis mitigation and solidarity in the face of financial turmoil, with little or no emphasis on conditionality** (Jones 2018). The Italian government called for a finance minister for the euro area that manages a European budget (IAI 2016) 'based on specific revenue sources as well as a mutualized funding mechanism which could entail issuance of common bonds' (MEF 2016b: p. 6).

Italy wants the EMEF to have some discretionary powers in deciding how to spend EU resources. **The aim is to politicise this figure with regard to budgetary decisions.** The Italian proposal does not assign the role of supervising European fiscal rules to the EMEF. Even without explicit reference in the 2018 coalition agreement, one can argue that support by the ruling parties - the Five Star Movement and the League - for an EMEF would not be limited to the latter exercising only (tougher) supervision of the EU regulatory framework.

Interestingly, neither Germany nor Italy strictly opposes further delegation of competences on economic and fiscal policy to the EU. Hence, **in principle, they do not oppose the creation of an EMEF.** Their approach is radically different, however. Germany calls for what has been defined a 'surveillance model' (Hinarejos 2013: p. 1634). The MS entirely hold fiscal policy competence while the EU enforces a number of legal rules aimed at constraining the fiscal policy discretion of the MS. Italy calls for a 'classic fiscal federalism model' (*ibid.*, p. 1635). Here, both the EU and the MS retain fiscal policy competence, but in different realms.

What, then, is the dividing line between the two countries? It can be found in Schäuble's 'Non-paper for paving the way towards a Stability Union': 'we must keep fiscal responsibility and control together, to avoid moral hazard' (Schäuble 2017: p. 1). In the German view, if the actor that takes decisions is not the one liable for those decisions, the risk of moral hazard emerges. This position is so deeply rooted in Germany because it belongs to the Ordoliberal tradition.

Born in Germany in the 1930s, Ordoliberalism is a school of thought that argues that the State should limit itself to fixing rules for the functioning of the economy, without directly intervening in the economy. It is also concerned with the responsibility of economic actors for their decisions. Related to this, the basic idea can be found in the so-called liability principle (Eucken 1952/04), according to which the one who is responsible for an action is also liable for it. The rationale is that this should foster prudent decisions. Ordoliberalism is against any decoupling of control from liability. **The Ordoliberal legacy still influences the political class, the national central bank and the Federal Constitutional Court in Germany.**

It is no surprise, then, that with regard to the EMEF, Germany follows a model that one could define as competence-liability. **It would agree to an EMEF equipped with regulatory and spending budgetary powers only if the MS accepted transfer of fiscal sovereignty completely to the EU beforehand.** If this were not the case, granting the EMEF the power to make use of resources from the EU budget would mean transferring to him or her liability for decisions taken at a national level. This would be equal to a decoupling of control and liability and would entail the risk that the EMEF would use common EU resources to compensate for fiscally irresponsible decisions of the MS.

Conclusions

In sum, although in principle both Germany and Italy would accept further transfers of economic and fiscal competence to the EU, **the real discrepancy between them seems to be the relationship between the level (national or European) that takes decisions and the level (national or European) that bears responsibility for these decisions.** The relationship between control and liability, which is part of the German Ordoliberal tradition, is a red line issue for the country, whereas it does not have the same importance in Italy.

The German attitude represents a hindrance to the establishment of the EMEF, which might be overcome by focusing on those parts of fiscal policy where the MS might be willing to give up competences. This would be as easy, as the process would serve the creation of European public goods. **Following a step-by-step approach would perhaps make it possible also to preserve the link between the level (EU or MS) that takes decisions and the level (EU or MS) that is responsible for the consequences of those decisions.** By doing so, Germany and Italy would overcome what is currently the deepest discrepancy in their positions towards the EMEF.

The proposal for a European Minister of Economy and Finance:
Germany vs Italy
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