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How Germany Can Cooperate with Emmanuel Macron to Reform the Eurozone*

There were sighs of relief in Germany when France elected Emmanuel Macron as President, but his victory also triggered a debate over Macron's reform plans for the Eurozone. His critics claim that Macron wishes to turn the currency union into a transfer union against Germany's interests. His supporters, by contrast, are calling on Germany to support Macron, or face the spectre of a Front National victory in the next elections. Both positions are unreasonable. Macron should be given time to further develop and explain his proposals for Eurozone reform. At the same time – and despite Germany's delight at the victory of an EU-friendly president in France and its willingness to work with him – it is not the task of the German government to ensure that Macron wins the next election. He is the only person who can make that happen.

Close cooperation between France and Germany will nevertheless be crucial to Europe's future. It will only occur if the two countries can openly discuss both their common ground and their differences. There are good chances of this happening. Macron is not ideologically biased and he has excellent advisors who understand Germany's position.

Macron is calling for a common budget for the Eurozone. He wants a new Euro budget that finances investments to stimulate growth and has a stabilising effect in economic crises. For Macron financing this budget with fresh debt should be an option.

To ensure democratic control over this budget, Macron wants to set up a Eurozone parliament. This parliament could consist of European Parliament members from the euro member states. Another option would be that national parliaments could send delegates to the Eurozone parliament.

This plan can hardly be expected to go down very well in Berlin. Germany would have to finance a disproportionate amount of the extra spending involved. Public investment in Europe is a national responsibility, supporting border crossing pro-jects is already happening through the EU budget.

The Eurozone parliament is not a very attractive idea from a German perspective either. The main concern is that a coalition of countries would quickly form that would, if necessary, push through growing spending, possibly financed by debt for which Germany would have to respond without being able to control it.

Is this concern justified? The lower a country's per capita income, the more strongly it can be expected to support higher expenditure. Let us assume that each country is represented by national MPs in the Euro parliament according to the size of its population. In this scenario around 42 percent of parliamentary seats would go to countries with a per capital income below the EU average. To achieve a majority, these countries would have to gain the support of MPs from France, the country with the lowest per capita income level among the remaining countries. France would hold over 19 percent of the parliamentary seats, so that French MPs would be the pivotal and most powerful group. The outcome would be the same if the Eurozone parliament were to be composed of the Euro member states in the European Parliament. This is why such a parliament seems more attractive for France than for Germany. MPs may not necessarily let national borders dictate their decision-making, but Germany will foreseeably be an easily outvoted net contributor to higher expenditure. It is worth remembering that when the currency union was founded, the Germans were promised that it would not become a transfer union.

Emmanuel Macron, however, has also called on the Eurozone states to introduce a credible insolvency procedure, although this point unfortunately was not highlighted in his election campaign. Germany should take him up on this idea and suggest the following compromise: any move towards more risk sharing is linked to a step towards risk reduction and harder budget constraints. The Eurozone should introduce new banking regulations to ensure equity backing for government bond holdings. Private creditors will realistically only be held liable during financial crises in individual member states if banks stop buying domestic government bonds without equity backing. Instead of a common budget with permanent transfers, a new fund should be introduced that not only helps countries with loans, but also with transfers if they experience a deep economic crisis – if, for example, their gross domestic product falls by over 3 percent within two years. The Eurozone needs a system for dealing with major shocks; not permanent redistribution. This reform package would constitute a step forward for Europe as a whole, rather than serving the interests of individual countries or politicians.

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Clemens Fuest
Professor of Public Economics and Finance
President of the ifo Institute