



HOUSE OF LORDS

Revised transcript of evidence taken before

The Select Committee on the European Union

Financial Affairs Sub-Committee

Inquiry on

COMPLETING EUROPE'S ECONOMIC AND MONETARY UNION

Evidence Session No. 10

Heard in Public

Questions 108 - 117

WEDNESDAY 27 JANUARY 2016

9.00 am

Witness: Thomas Wieser

Members present

Baroness Falkner of Margravine (Chairman)
 Lord Butler of Brockwell
 Lord Davies of Stamford
 Lord Haskins
 Earl of Lindsay
 Lord McFall of Alcluith
 Lord Shutt of Greetland

Examination of Witness

Thomas Wieser, Chair of the Economic and Financial Committee, European Council

Q108 The Chairman: Thank you, Mr Wieser, for agreeing to give evidence to us today for our inquiry into completing Europe's economic and monetary union. This session is on the record and we will take a verbatim recording of the proceedings, which will be published in due course. You will have the opportunity to correct any minor errors or misunderstandings. If it is acceptable, I will start by taking you straight to an overview of the Five Presidents' Report and whether you think that its elements are politically and economically achievable in the short term, but then of course in the longer term as well, and what your views are on it as related to the four Presidents' report, which some of our witnesses have also raised. Finally, in your opening remarks, could you touch on what you hope to find in the White Paper in 2017?

Thomas Wieser: That is for starters?

The Chairman: We have an hour, but there are other questions as well.

Thomas Wieser: The offer that only minor errors can be corrected but general incompetence or stupidity cannot is a threat.

The Chairman: We are not expecting any of that today.

Thomas Wieser: Still, I shall try to be brief because that minimises gross error. Thank you very much for coming; it is always a pleasure and surprise. You are the only parliamentary group, Europe-wide, that is genuinely interested in European questions, it appears. Almost everybody else appears interested only in national questions rather than European questions, so thank you for being here. In my view, the Five Presidents' Report shows very clearly that, in terms of economic policy co-ordination, the euro area but also the European Union has by and large used up all the constitutional space offered by the present treaty. If you look at the short-term measures that are proposed there, they are not exactly very far-reaching, even though many people would dispute that. Better co-ordination in the International Monetary Fund, setting up a European Fiscal Board and so on may be important contributions but they

are not sea changes in how one conducts business. Possibly the only exception to that is the completion of banking union, where a proposal for a European deposit insurance scheme is on the table, and I am sure that this was touched on yesterday.

The Chairman: We will come to that in our conversation.

Thomas Wieser: Very good. This shows economic policy co-ordination as we now know it—fiscal policy co-ordination or co-operation, whichever way you want to define it—and all other issues are more or less as developed as can be. For some people this is more than enough, whereas others consider that more would need to be done, especially if you want to further develop and deepen economic and monetary union. In my view, that implies, as the Five Presidents' Report shows, sometimes explicitly but mostly implicitly, that in order to have deeper co-operation, which is deemed necessary for stable and durable monetary union, you need changes in the constitutional balance between member states, national parliaments and national Governments and Brussels, whatever “Brussels” may be.

The clearest case is that of fiscal union, as it is called. If you want more oversight over national budgets, or if you want better co-ordination between national budgets, or if you want a meaningful euro area budget, you will need treaty change. These three examples show that there is a wide diversity of views on why one would want something called fiscal union. It is not a debate that is carried out in a very transparent manner. There is some very nice literature, incidentally, on Catholic versus Protestant attitudes towards the euro—it mainly stems from Germans and it is very interesting—as well as on Catholic versus Protestant attitudes towards fiscal discipline. I shall let you discover for yourself what the two confessions say. North of the Alps, the issue of how to increase fiscal discipline is dominant whereas the conjunctural stabilising function is more to be found south of the Alps. Whichever side one is on, if you want a greater, binding say on national budgets or if you want to transfer budgetary competences to Brussels, you need to do something constitutionally. In my view, this would be a constitutionally larger step than actually joining the European Union. You would have to have treaty change, you would definitely need referenda in the vast majority of member states, and then you would have to settle on what the democratically accountable body in “Brussels” would be.

If you talk to Martin Schulz, there is no question what he considers to be the democratically accountable forum. You could have other set-ups, such as the budgetary assembly or budgetary committees of national legislatures—you know all this anyway—but all this is for my successors to start debating. For me, that is the big thing about step 2 in the Five Presidents' Report: it is a possible gateway to such constitutional changes. As there is

absolutely no appetite for these issues among member states at present, it would probably be a good idea to produce something further down the road. The only problem, of course, is that as time goes by, you come to the magic date of mid-2017, and we will see what the wise men and women put together in the mean time.

The big difference between the Four Presidents' Report and the Five Presidents' Report is possibly that the Four Presidents' Report was maybe the bigger picture. It was more courageous, in a way; it was holistic; it was written at a time of crisis; and we managed to implement large parts of the banking union part of it. The Five Presidents' Report, however, possibly already reflects the political realities coming out of the euro area crisis.

Q109 The Chairman: One of our witnesses suggested to us yesterday that they expected quite significant legislative change after the French and German elections are out of the way and the White Paper is produced in 2017. Do you expect that? It does not sound like you do.

Thomas Wieser: No. On the completion of banking union: we will come to EDIS afterwards, and that is already a very complex project. An even more complex and constitutionally challenging project, such as deepening monetary union or completing it through a fiscal union and something that is democratically accountable, requires many years, I would say, and a long period of national joint analysis, soul-searching and political debate, and I sincerely doubt that there would be any legislative consequences this decade.

The Chairman: And do you think we have enough in the armoury now for the euro to be considered sustainable? Do you think that the risks of a future euro crisis could be averted through the mechanisms that we currently have?

Thomas Wieser: The euro area has gotten better and more stable. Actually, the euro crisis was such a perfect storm, in a way, because it brought together the problems stemming from convergence euphoria and of high-interest-rate member states joining a low-interest-rate monetary union and, let us say, the credit bubbles that came with it. At the same time we had all the problems of maladjustment to globalisation, which are more prevalent in some member states than in others. We had all the problems of malsupervision in the banking and financial services industry, and so on. That all came together, boom, with a match thrown on to the bonfire called Greece.

But Greece was just a symbol, in a way. Are any of us, either inside or outside the euro area, perfectly insulated from the next storm? Definitely not. Are we better equipped? Definitely yes. At the risk of being slightly unorthodox, and getting ahead of myself, deposit insurance is not one of the major constituent pillars of making banking and monetary union significantly more resilient. It would be good to have but one does not desperately need it. However, in

order to minimise future risks: first, progress on more enforceable fiscal discipline; secondly, an economically sensible set of rules for fiscal policy; and, thirdly, an EU budget that had countercyclical properties would definitely be highly desirable in the medium to long term.

Q110 Lord Haskins: I accept your point about stability, and clearly there is much greater stability than there was, but is that possibly at the expense of economic dynamism? Have the economies of Europe lost their momentum as a result of the measures that have been taken? How does one recreate that dynamism, which was a part of the EU for so many years?

Thomas Wieser: I think it comes down to the question of whether one agrees on what the causes of the crisis were. You could say that there are two schools of thought. One is that the European economies went to sleep at the steering wheel, given increased global competition, and procrastinated with their adjustment processes. They covered up the problems stemming from competition, Latin America, Asia and so on—early retirement schemes, for example; Greece increasing transfers to keep people out of the labour market; or shifting government expenditures from investment to government consumption, and so on—which made them less dynamic and less adjustable. The other, not incompatible, school of thought would be that had you left the Greeks with the drachma, the Portuguese with the escudo and the Italians with the lira, exchange rate adjustment would have been a necessary and sufficient condition for their remaining competitive globally. Obviously there are elements of truth in many competing theories, but my main theory is that many of the European economies just felt too safe and secure in their old achievements and most of them did not adjust to global competition. This is one of the main reasons for a certain lack of dynamism.

There are two or three adjustment models. One is the US: we just let global competition happen, and the effects on income distribution are as they are. Or you can do as the Swedes do: invest heavily in education, research and development and innovation, and move more people up the value-added chain so that the number of those who feel the negative effects of globalisation is minimised while the number who profit from it is maximised. Or you can do it like unnamed countries on the continent where you just shovel money on to the problem, and in the short term people appear not to feel the effects of globalisation because they do not become obviously unemployed, (through unemployment insurance, employment in the state-owned sector and so on). Getting many of the European economies out of this trap would probably do the trick and reinvigorate both Europe as a whole and individual economies.

There are individual problems stemming from joining monetary union, of course. You could say that Portugal, for example, felt that it had no need to work on its productivity because it

felt safe in the safety net of Europe. That proved to be a short-term and medium-term answer but not a long-term one.

Lord Davies of Stamford: I just wanted to disagree, with great respect, with something you just said about the importance of retail banking insurance issues in the future of the euro. It seems to me that there are two problems with allowing a retail banking system to rely on the creditworthiness of an individual member state. One is that in normal times that leads to people having an incentive to hold their deposits outside their member state in a safer member state, as they see it, so you will probably have a move of liquidity from the local, less productive economies—which is exactly the opposite of what you want, and there will be a higher cost of capital in those economies because those banks will have to pay more for their deposits and will therefore have to charge more for a loan. I think that that is a long-term structural problem. The amounts of money involved may not be very great in normal circumstances but it is a problem in the wrong direction, if you see what I mean.

Secondly, but most importantly, the absence of mutual responsibility for retail deposit insurance is a terrible trigger for a crisis, because it means that if there is a systematic shock affecting one member state and the finances from that state appear to be deteriorating—the local bond market falls and so forth—immediately there are questions about the solidity and reliability of the retail banking deposit system, so people rush to put their deposits elsewhere. A small problem with the local member state's finances becomes a major problem, with a run on the banks. Those risks are very major and it is very important—not, as you were suggesting, rather a secondary issue—to achieve some solution with the retail deposit insurance scheme.

Thomas Wieser: I would not completely disagree with you. If you take the single elements of banking union, for me the most important one was having the single supervisor to get rid of, let us say, the industrial policy type of banking supervision that we witnessed. Incidentally, something that is normally taboo in this town is that, if you run a single competition policy in an internal market, there are good reasons to believe that unified oversight - single supervision - is more part of the internal market than it is of monetary union—but that is a different issue.

Lord Davies of Stamford: In any case, you could not possibly have—or even suggest having—mutualisation of retail banking deposits unless you had common supervision because, first of all, you need to be sure that all the banks are subject to the same levels of supervision and control.

Thomas Wieser: We have moved on to deposit insurance now. I was not trying to suggest that deposit insurance is irrelevant. Firstly, all the measures that would make all member states

agree to joint deposit insurance are just as important as deposit insurance itself. I refer to anything that produces significant convergence to a level playing field, on the one hand, and what we are also talking about—the code word nowadays is “de-risking”—on the other hand. For example, what is the regulatory treatment of sovereign exposures, does one have a sovereign debt restructuring mechanism, et cetera? Deposit insurance without a joint fiscal backstop is also something different, psychologically and legally, from a deposit insurance with one. I would agree that without joint deposit insurance you would probably have some capital movement or deposit movement in the time of sovereign stress, but I still maintain that it is not one of the main constituents of banking union.

Also, once you have completely unified conditions of competition, there is the question of what a euro area or banking union-wide banking sector will look like. If the main conditions of competition have been completely harmonised or have strongly converged, do we then still have a German bank, an Italian bank, a Spanish bank, a Portuguese bank or do we have a system where possibly the bank is domiciled in the country that offers the best tax treatment? It is not totally inconceivable that in 15 or 20 years’ time the vast majority of European banks could be situated in, let us say, Luxembourg because of favourable tax conditions. In the US, we have similar effects without anybody doubting that they are American banks. For some peculiar reason, not all of them but some of them are domiciled in Delaware and some in California. That would, of course, presuppose that you have a completely unified system of deposit insurances and then it does not matter in which bank and where deposits are located. It is more a question of how credit is given to firms on the periphery. Can the system support growth and jobs in peripheral countries just as well as it does now where you have nationally owned banks?

Lord Davies of Stamford: Did you say that the Americans have been through all this?

Thomas Wieser: Yes.

Q111 Lord Shutt of Greetland: You mentioned an alpine divide earlier but, as far as the report is concerned, what has been the response from member states? Are there distinct groups of member states that coalesce around particular facets of completing EMU and who are they?

Thomas Wieser: The overall debate of the Five Presidents’ Report at the Council and at the European Council has not been extremely vigorous and the calendar in the report is obviously a result of such discussions. That is to get on with the short-term business and then we will sit down and discuss it again. Everybody is well aware of the significance of the 2017 calendar.

There has, however, been a spirited debate about the separate elements of the report and—I apologise—we come back again to deposit insurance, where there is a very clear divide between what you could call the “mutualisers” (in favour of instant mutualisation) versus the risk reducers. This is a debate that we had not only with regard to deposit insurance; we had more or less the same debate when we were constructing the Single Resolution Fund, the Single Resolution Board and the whole question of bank resolution. What is the backstop for national resolution funds or, in the case of banking union, what is the short-run and long-run backstop of the Single Resolution Fund, which over the next years will be progressively mutualised? That is a debate where I have also been under significant pressure from many colleagues to move this forward and start working instantaneously on making the European Stability Mechanism the backstop for the Single Resolution Fund. Others have pointed to past political agreements where, only at the end of the transition period in 2023, will such a question be resolved. Whenever we come to the question of mutualising backstops or fiscal responsibility now, later or never, there has been a very clear debate at the level of finance Ministers and their deputies. This is a debate that goes across banking union, fiscal union and the like. There is less of a debate amongst my colleagues on the issue of democratic accountability. This is more exogenous, as it were.

Lord Shutt of Greetland: Are there any elements where you would say it is just not going to go anywhere?

Thomas Wieser: One thing I have learnt over the last years of this crisis is that at times of stress, and sometimes even at times of less stress, the unexpected happens. Linear interpolations will probably not produce good forecasts, but you would have to have some unexpected turns of political will and consciousness to jump over the next constitutional steps.

Q112 Earl of Lindsay: If you look at all the proposals and developments that are planned for the completion of economic and monetary union, what do you think the direct and indirect impacts would be on the non-euro member states, in particular from the United Kingdom’s point of view?

Thomas Wieser: Always assuming we are talking about EU members, I would presume that the effects are second-order or third-order effects only. A higher degree of stability in times of great economic stress is obviously most important for those directly concerned, but also for those only indirectly concerned. A higher degree of fiscal co-ordination and co-operation is eminently relevant for those who do it, but irrelevant for those outside monetary union.

The sea change for non-euro area members in banking union was the setting up of the single supervisor. Having a unified deposit insurance scheme, if it ever comes about, does not make any additional difference, I would say. If you had a complete and perfect banking union, it would probably be that much easier for British financial service providers to do business within monetary union. You have, much more clearly, one single regulatory regime right across the whole spectrum of issues. I do not see any additional problem of co-ordination between ins and outs that is not covered currently by the rules of the EBA in London. Try as I may, I cannot think of anything negative, but I will get back to you if I do.

Earl of Lindsay: Do you not think that there might be some unintended consequences? One scenario might be where the euro member states, in the decision-making, governance and oversight that they will be exercising as a euro group, might drift into making decisions, albeit informally, which are then implemented across the entire EU group.

Thomas Wieser: You sound like George Osborne. There is that concern. I have been debating this with my British colleagues for the last 10 years or so. I have been in every single euro group meeting since the setting up of the thing and I cannot think of a single instance where there was this sort of, “How will we vote? What will we discuss tomorrow in ECOFIN?” It has never happened, but one has to realise that there is a concern and you have to deal with it.

Earl of Lindsay: How?

Thomas Wieser: This is part of the four and a half points of Mr Cameron’s initiative, so the answer will be forthcoming. You will see the European proposals to this question within a week—actually not “European proposals” but Brussels’ proposals.

The Chairman: Are they not eurozone proposals?

Thomas Wieser: Mr Tusk is very much the President of the European Council and not of the Euro Summit.

Earl of Lindsay: Can I just check one other angle? Is the landscape around this question, this concern, principally one between the euro members and all the non-euro members or is it principally one between the UK and the rest of the member states? Are the other non-euro member states also sharing those concerns?

Thomas Wieser: I was just thinking of the minuting of the meeting; I was not reflecting on your question. Traditionally, the UK and Sweden have had a very good spirit of co-operation and, therefore, the Swedish colleagues tend to echo the concerns of the UK representatives. None of the others do. That does not mean that they do not have concerns, but I would say that there is one and only one area where you could argue that there is a grey zone between monetary union, banking union and the internal market, and that is financial services. The vast

majority of outs have very little active interest in the policy-shaping of financial services. They are regulation-takers whereas the UK is more of a regulation-shaper and, therefore, the concern is legitimate. Even under internal market rules I can remember only one limited instance, which is at least 10 or 15 years ago, of when the UK was outvoted in any financial service dossier.

The Chairman: Is that the financial transactions tax?

Thomas Wieser: No. Firstly, it does not exist; secondly, it is under closer co-operation; thirdly, it is not there yet; fourthly, it was something to do with investment firms or something like that. It was a fairly trivial piece of legislation some time between 2000 and 2005, I cannot remember. Other than that, in 20 years the UK has never been outvoted, but things may change. Some of the models that have been discussed—and we will know more in a month or two—are that you have very specific modalities of voting arrangements or delaying arrangements or reflection arrangements in such areas of concern, where there might be a presumption that the members of the euro group have joint interests that they would try to impose on outs. By the time the minutes are written we will probably know exactly what the proposal is—and possibly even the result.

There is, of course, a legitimate concern of the ins that the UK, if it does not like a legislative proposal, might simply claim that this is related to monetary policy or banking union even if it is a very clear internal market dossier. The concerns go both ways and that is why one has to realise that there is no way of, ex ante, totally meticulously and precisely defining where the thin dividing line between monetary policy-related dossiers and internal market dossiers is. There will always be a grey zone. What one can do is try to keep the grey zone as small as possible and find a decent arrangement for solving what is in the grey zone.

The Chairman: Thank you. That is very helpful. Lord McFall.

Q113 Lord McFall of Alcluith: I know that the European Semester is something that you have been very much involved in. You mentioned the issue of democratic accountability earlier on in answer to one of the questions and I believe you mentioned that the European Semester, in your view, was more of a non-political process. If you accept that economic and fiscal policy co-ordination in Europe is essential, do we not need political buy-in if we are to achieve that streamlined economic and fiscal policy co-ordination? As far as creditor countries go, what means do you have, other than that, of ensuring that they reform?

Thomas Wieser: That is a very good question and, unfortunately, one to which there is no brilliant answer. If one spends most of one's professional life within the Brussels bubble, one tends to think that the European Semester is Europe's answer to sliced bread or whatever—

everything. It is the instrument of European policy co-ordination. Then you take a train out of the Brussels bubble and you go to a capital and you say, “What do you think of the European Semester?” and the people say, “European what?”

On paper, the European Semester is an answer to the collective responsibility that all 28 member states have under the Treaty for co-ordinating or closely co-operating on economic policies in general and in the fiscal area very specifically under the Stability and Growth Pact. Much of that is then enshrined in country-specific recommendations. The degree to which member states follow or take seriously the country-specific recommendations differs enormously. That is already quite optimistic. “It leaves something to be desired” is probably the correct wording. Why is that? There are two ways to look at deficiencies in economic policy co-operation, if you think that ever-closer co-operation is desirable. One is the more coercive way, by threatening fines, withdrawal of structural funds, stepping up of procedures and the like, and my personal opinion is that all attempts at doing that have not been successful.

The second way would be by increasing political accountability, political buy-in. What has happened so far is that all measures of economic policy co-operation have increasingly bypassed national parliaments, which implies that the national buy-in, the know-how of what is being suggested, more or less stops at Brussels airport. Ministers come in; they attend ECOFIN and other Council formations; they read what is suggested for their country; they take the piece of paper back home. It is not discussed in the national media; it is not discussed by social partners; it is not discussed in national parliaments. How should it then enter national policy-making? What is contained in these country-specific recommendations is 100% the policy responsibility of the individual member state. It ranges from fiscal sustainability, labour market reform, and in the case of Germany, setting up early learning centres and kindergartens. All of this is national policy, but you are addressing it into a vacuum above the heads of national policymakers. That is why I believe that the involvement of social partners and national parliaments is the only way of bringing about any improvement. It may not produce any improvement, but at least it gives the chance for improvements.

Q114 Earl of Lindsay: Within the existing regimes, such as the Stability and Growth Pact, there is already the means of imposing fines. Can you ever envisage the situation where fines are actually imposed and levied?

Thomas Wieser: Again, we come to the question of linear interpolation. If we take past experience, one would probably say that the motto of the Commission is, “Fines are fine, but

no fines are finer". Having witnessed the anguish of member states, especially finance Ministers and Prime Ministers, when the procedure is considerably stepped up but still a long way from imposing fines, I would think that the threat, ultimately, of fairly significant fines being implemented is not taken very seriously by member states.

Lord Davies of Stamford: What about the withdrawal of structural funds?

Thomas Wieser: There was one attempt eight years ago, I believe, in the case of Hungary. It was a very divisive debate. It hurt more member states than just the Hungarians. It resulted in not very much. Obviously, the threat was never acted upon and the result was not that Hungary changed its fiscal policy stance but simply that there was a political division between the European People's Party and the social democrats in the Council. It was not a very edifying experience.

Q115 Lord Haskins: I wanted to ask a question about National Competitiveness Boards. Some of us are somewhat sceptical about their merits and value, in that they should be there already. If competitiveness is an issue, national governments should be looking at it and dealing with it themselves. What are the five Presidents going to add by establishing National Competitiveness Boards, which would be ducking the issue of structural reform?

Thomas Wieser: This is a concern that I have heard from a number of member states. In normal or good circumstances, the issue of macroeconomic productivity increases, competitiveness or whatever you want to call it should be not totally but quite central to national policy-making anyway. In some countries, this is indeed the case. You have sometimes formal and sometimes informal institutions that provide advice or guidance to policymakers. These range from institutions such as Social Partnership in Austria to the Centraal Planbureau in Holland, but there are member states where such issues are not publicly discussed and those are the member states which, arguably, have the larger productivity problems.

Those member states that, I would argue, have no or less of a problem are those that already have such formal or informal institutions and, as a rule, they would say, "We do not really need the Commission telling us to set up an institution of our own, we already have something. There is no need to change it, produce a new hat or something". For those that do not have such institutions, there are usually clear but bad reasons why they do not discuss such issues. It could be that there are national oligopolies that would prefer to remain fairly un-transparent, or organised labour relations, which are run in a manner that is detrimental to competitiveness or productivity, or simply that the political system does not know how to

handle such an informal advisory group, which would be at its best if it simply increases transparency on the policy consequences of policy proposals.

I am sure that I do not know all 28 set-ups but, for me, the stellar example is the Centraal Planbureau in Holland, which goes as far as quantifying the electoral proposals of political parties. You have to be pretty careful of what you are promising the electorate, because the Centraal Planbureau will come out before the election and say, “This would increase the deficit to 10% of GDP” or, “This is utter nonsense, because it does such and such to the economy”. That is brilliant, but it is only in a Calvinist society like the Dutch that the political system can stand having such a thing.

The Chairman: We have independent think tanks to do the same for us, and the figures are always contested.

Thomas Wieser: Yes, but that is actually a government-run institution, which makes it singular. The state is its own watchdog, in a way, and it works. I know many countries where you could set it up like that but it would never work.

Q116 Lord Butler of Brockwell: We have talked about banking union. We have not really said anything about capital markets union. Do you think that that is both an important contribution to carrying forward co-ordination and also a more practicable one in the short term?

Thomas Wieser: Capital markets union was not something that was devised top-down as was, you could argue, banking union. It was more a bottom-up procedure that collected a wide variety of already existing proposals, had a look at them to see if they were complete enough, added a few, took existing analyses about the structure of financing of the European economy, tied a nice ribbon around it and called it “capital markets union”. That is very important, because it improves the quality of the debate, it makes it politically more visible and it increases the probability of rapid passing of legislative acts, because people know why they are doing it. It creates a big picture into which you can fit the individual measure, such as securitisation, and it shows the wider audience how things hang together. It is a good complement to banking union, in a way, even though banking union was much more about the supervisory regime, whereas capital markets union, as far as I can see, has no supervisory elements, only legislative elements.

There is, of course, the hope that the structure of financing of the European economy will change towards more equity, capital market-based financing and less credit-based financing, but there are very few people who would expect a sea change there within two or three years. I hope that will be a gradual process. I am quite optimistic that it will bring about change, but

one should not believe that in 2020 we will have a structure of financing the economy similar to the US economy.

Lord Butler of Brockwell: It is perhaps more a matter for the 28 than the members of the euro, but do you also consider it relevant to reinforcing the euro as a currency?

Thomas Wieser: Frankly, I have never considered it as being of central importance to monetary union. To the extent that it is good for the 28, it is obviously good for the 19, but that is all there is to it.

Q117 Lord Davies of Stamford: I want to ask about fiscal union. Views on fiscal union seem to fall into three categories, as I see it. One is what I think of as the prescriptive disciplinarians, people like Schäuble and Trichet, who think that the solution is to have very strict rules on fiscal deficits, to enforce them fiercely, as you have mentioned, to have everybody adopt plans for productivity improvement, competitiveness improvement and so forth, and to make sure that those are all enforced and that will be the end of the problem. The second category is people who say that fiscal union should require the structuring of permanent transfers in the union, analogous to what happens within member states. The third category—I think of them as the Aristotelians, which shows where I am coming from—would take the view that it was a disastrous idea to have permanent structural transfers, because that just creates a phenomenon of dependency and creates the problem that you are trying to resolve.

What is inescapably necessary, though, for effective monetary union is some mechanism for absorbing asymmetric shocks and you cannot rely entirely on the capital markets to do that, for reasons I will not go into. What you really need is to have, of course, rules on fiscal deficits and improvements in competitiveness, but the third element needs to be measures providing some absorption of asymmetric shocks.

There have been two suggestions that seem to me to have some promise in that context. One is the idea of having an unemployment fund, which would be a reinsurance fund covering the cyclical, not the structural, elements of unemployment and that could be structured in various ways. The second is to have a kind of EU-based IMF working as the IMF does, which has always worked on the basis of conditionality and providing liquidity to countries with short-term deficit problems of a fiscal or current account nature. Is that a fair analysis? If so, do you think that those proposals for contributing to automatic stabilisation are constitutionally, legally and practically feasible? Do you have any other suggestions in the same direction?

Thomas Wieser: I will send you my book once I have written it. I touched upon the three elements of how you could possibly look at fiscal union in one of my previous interventions. They are three reasons which are not mutually exclusive and, if you go back and read *One Market, One Money* from 1992—Michael Emerson was one of the main authors—you will find many of these issues mentioned there. I once asked Jean-Claude Trichet why the Maastricht Treaty was so incomplete and he said, “Young man, it was all there in the first draft but the politicians took everything out”—so you cannot fault the drafters of the Maastricht Treaty for intellectual mistakes. It was politics, of course; the time was not yet right.

Everybody who agrees with the concept of fiscal union would agree on the need for setting up a central budget that has a stabilisation function, with the presumption that asymmetric shocks, over time, will be more or less evenly distributed around the euro area, possibly not quite so. If you look back at the history of monetary union, the incidence of exogenous asymmetric shocks has not been very high.

Lord Davies of Stamford: Exogenous shocks are mostly symmetric.

Thomas Wieser: Exactly. That is why there would be less of a distributional problem across monetary union. You will be talking to colleagues from think tanks. Bruegel has been working on the issue of a joint unemployment insurance scheme. It presented such a paper to finance Ministers around a year and a half ago, which was fairly well received. It was under the Italian presidency exactly one and a half years ago. Prima facie there are quite a lot of possible negative incentive effects if you have such a joint unemployment insurance scheme.

Lord Davies of Stamford: It must apply to structural unemployment. That is the important point.

Thomas Wieser: Exactly. You can deal with it, indeed, but you need to take care that you have a grip on national policies that would push people from pension schemes into unemployment schemes, because for the national pension scheme you alone are paying, whereas for the unemployment scheme you have co-financing. There is a huge amount of second-round and third-round effects that you have to think through, but that can be dealt with. There is nobody who thinks you should have fiscal union who would say that you do not need joint fiscal discipline. You will not find anybody who would say that you do not need a joint stabilisation function, but you will find people who would say that you should not have a permanent transfer mechanism.

My response is that you do have a permanent transfer mechanism; it is called the structural funds and actually, in the case of Greece, the present co-financing rate is 0%. What you have

is already that. It is not explicitly or even implicitly linked to monetary union, but Greece is getting 4% or 5% of GDP per annum in what, in balance of payment terminology, is called “unrequited transfers”. Opinions may differ, but the reality is already partially there. The European Monetary Fund, in the form of the ESM, is more about fixing a problem once it has surfaced. Fiscal union is more about preventing such problems from popping up.

The Chairman: Mr Wieser, we have to bring the session to an end because we are in danger of running into our second session, but if you have any other thoughts we would be delighted to hear them. Perhaps you could send them in writing to the office. We are hugely grateful to you for giving us your time. It has been invaluable to the Committee and we will send a transcript for you to look at.

Thomas Wieser: However, I am only allowed to rectify the minor mistakes and not the larger ones.

The Chairman: As you know, everyone hangs on to everything you always say, so thank you very much indeed.

Thomas Wieser: Thank you very much for your interest.