



Europe's Quest for a More Perfect Union, Part I

Nicolas Véron explains why Europe must strive for greater union on four fronts all at once—political, fiscal, competitiveness, and banking.

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Steve Weisman: If Europe is to overcome its economic crisis, it must achieve greater union of its parts, according to Nicolas Véron, visiting fellow at the Peterson Institute and senior fellow at Bruegel in Brussels. This is Steve Weisman. Nicolas, what are the main elements of the union that Europe must achieve?

Nicolas Véron: Europe has a monetary union. I mean, the euro zone has a monetary union and there is obviously an existing legal framework of the European Union which allows the European Union to legislate and regulate a number of things. But what the crisis has shown is that executive decision-making capability was basically not what it should have been to allow for crisis management and resolution in three crucial areas plus one.

The three areas are banking policy, fiscal policy, and competitiveness policy or structural reform. This has been commented from many perspectives. The one additional one, which I think cannot really be separated, is a question of political institutions and how decision-making can be endowed with democratic legitimacy.

So basically, the agenda is what I've called in this testimony a four-fold union, because it's banking union, fiscal union, something I awkwardly would call competitiveness union, which is coordination of structural policy, and political union, meaning a reform of the decision making process so that the European citizens can express their views in a democratically-consistent way, which is arguably not the case of the current institutions as the German constitutional court announcers have, I think, rightly noted.

These four components -- banking union, fiscal union, competitiveness union, political union -- are not substitutes for one another. You cannot say, "Oh, I'll do banking union and the rest will wait," or, "I'll do political union and the rest will come later." The urgency of this situation in terms of financial markets and investor sentiment means that action is needed on all those components and at the same time, none of them can be neglected.

It's very difficult for policymakers, because different countries are more comfortable with some of the aspects of this agenda than others and the order of comfort is not the same for each member state. But they have to act on all four incrementally, gradually in parallel. Completing this four-fold union will take a long time, but progress has to be made on each component.

Steve Weisman: You've been arguing some of these points for some time. Hasn't Europe made more progress than one might have thought six months or a year ago?

Nicolas Véron: I would say even three months ago. I think there has been tremendous progress in recent times. Not yet concrete enough to move the marketplace, that's for sure, but I think necessary -- insufficient but necessary steps -- especially in terms of framing the agenda in

the first place. As you mentioned, many observers, me included, have said this for a long time. Now you see it in officialdom for the first time with this degree of consistency.

I mean, Herman Van Rompuy [president of the European Council] in a report delivered on June 26, made basically the same case on the need for those four components to be pursued in parallel. Mario Draghi, as the president of the European Central Bank, also used the same framing in recent speeches, including at the European Parliament. It sounds simple and straightforward, but it's actually horribly complicated, especially from a political perspective and especially in the context of the politics of individual member states: Germany, France, in particular, but also others: Netherlands, Finland, very complex situations right now.

But I think we're seeing the crystallization of a commonly shared agenda, which is great progress, because this is necessary for further steps to be made. And of course, in the specific area of banking union, there's been a policy breakthrough on June 29th with the announcement that direct intervention of the European Stability Mechanisms of future bailout fund for the entire euro zone could be considered in individual banks in Spain, Ireland, and elsewhere. This remains at this point a promise. There's nothing concrete yet and this is a big problem. There are still a number of hurdles to be overcome, but I think in terms of the principles, this has been a breakthrough.

So I'm looking at the bright side. Obviously, the situation is very dire in Europe right now. The risks are huge. Nobody knows what will happen. But I think these elements are real progress. They are real steps that bring us closer to a possible solution. It's not a prediction. It just is some news that is positive in the general gloom.

Steve Weisman: Let me ask you about the banking union and also the competitiveness union. Both are politically sensitive. There's been an almost raised consciousness of how interrelated the banking systems of the different parts of Europe are, and therefore the need for an overarching of supervisory authority. That runs into political obstacles that people have only belatedly come to realize.

Nicolas Véron: Absolutely. I think not everybody has realized as much as they should even now. But it's been remarkable how much this idea of a banking union has gained momentum in the past few months. Maybe it's because I'm French, but I think the change of orientation of the French government in particular has played a pivotal role in this evolution.

Steve Weisman: Does the [French] election signify that a little bit?

Nicolas Véron: The election was not won or lost on European policies, but I think it's a consequence of the election possibly because the change of position of the French state has coincided very much with the change of leadership. So this new orientation and promotion of the banking union, not only with a single supervisor, but also with a single deposit insurance system and single resolution authority, has been first announced as far as I'm aware of by newly-elected President [Francois] Hollande on May 23 -- literally, two or three weeks after he took over.

Steve Weisman: You've also said that Europe has suffered from what you call "democratic deficit." I want to ask you about that in the second part of our interview. Thank you.

Nicolas Véron: Thanks, Steve.

