

Policy Brief

We Don't Need No Institution

What the Eurozone requires is not a treasury but a common fiscal policy

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Does the Eurozone need a “treasury”? The answer is no: The Eurozone needs a common fiscal policy to complement the ECB’s monetary policy. But it does not need a new institution to take fiscal policy decisions or to execute such decisions. The EU institutional framework is well-equipped to perform these functions. Hence, the focus of political energy should be on getting the right policies and instruments in place, not on building new shiny institutions.

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Every federation, indeed every country, has a treasury. Hence, the logic goes, the Eurozone also needs one to become a mature currency area on a par with, say, the United States. At first sight, this is a compelling argument. But, as I will argue here, it completely misses the point: It avoids the requisite debate on policies and competences and replaces it with an unnecessary one on institutions and processes. The Eurozone does not need new institutions at this stage. It needs a common fiscal policy. This is what we should focus our political energy on.

What does “treasury” mean?

As with many Eurozone reform buzzwords, “treasury” means different things to different people. Broadly, we can identify three versions now under discussion:

- *“Treasury” as executor of fiscal policy:* In most countries, the term “treasury” is used synonymously with “finance ministry” (e.g. the US Department of the Treasury) or designates a part of it (e.g. the French DG Trésor). Thus, treasuries have traditionally been an important player in the executive branch of democratic states. They usually fulfil two key fiscal policy tasks: First, they raise funds for the state either through taxes or by issuing debt. Second, they administer public spending. But they cannot do so on their own: They need approval for everything they do from the legislative branch, i.e. by parliaments. This power of the purse is a cornerstone of modern parliamentary democracy. Therefore, in the traditional sense, a treasury is not a place for decision-making about fiscal policy, but for preparing and executing parliamentary

decisions. In the Eurozone context, this would mean replicating national finance ministries at the European level, possibly with a Eurozone finance minister at the apex.

- *“Treasury” as decision-maker on fiscal policy:* The specific debate on a Eurozone treasury has, however, departed from this traditional concept. The Five Presidents’ Report¹ argued in 2015 that “as the euro area evolves towards a genuine EMU, some decisions will increasingly need to be made collectively while ensuring democratic accountability and legitimacy. A future euro area treasury could be the place for such collective decision-making.” Here, the treasury is no longer primarily an executor of decisions taken elsewhere but a place where the real decisions are taken. It is also clearly not conceived as a traditional government department with a vertical hierarchy and a single decision-taker at the top but as a collective decision-making body. Thus, this concept of “treasury” is largely decoupled from its original meaning within a nation-state context.
- *“Treasury” as common fiscal policy itself:* In both concepts described above the “treasury” is an institution to be established at the European level. But it seems that what many really have in mind when advocating for a Eurozone treasury is not a replication of a national finance ministry but of the fiscal competences of a nation state. “Treasury” is used here as a synonym for the power to spend, to levy taxes and to borrow. Thus, if used in this sense, the discussion about a Eurozone treasury is really a discussion about the need for a common fiscal policy.

The three concepts above suggest that there are really three questions behind the main question: “Do we need a Eurozone treasury?”, namely what competences the Eurozone as such should have on fiscal policy; who should decide on fiscal policy at Eurozone level; and who should implement these decisions:

Do we need a treasury in the sense of a common fiscal policy?

The short answer is yes. Whether the Eurozone needs a common fiscal instrument has been the subject of a long and intense debate over recent years. Most economists agree today that some form of common fiscal policy would be beneficial for the functioning of the Eurozone as it would complement the ECB’s monetary policy in the event of both asymmetric shocks and area-wide crises.² To call that a treasury is a misnomer – we should call it a fiscal instrument, or a fiscal capacity, or even better a budget, because this is an expression that non-economists understand.

But if we get a common fiscal policy, the question is still who would decide on it and who would implement it. This is where the two next questions come into play.

Do we need a treasury as a place for collective decision-making on fiscal policy?

There are two types of fiscal policy decisions at the European level:

- The EU yields a certain degree of vertical decision-making power over national budgets. Commission and Council apply the rules of the Stability and Growth Pact (SGP) based on EU regulations. In addition, the Eurogroup de facto exercises a veto power over national budgets of member states in ESM programmes. The question here is whether these vertical decision-making powers should be transferred to a new “treasury”.
- A new common fiscal policy for the Eurozone would entail a transfer of horizontal decision-making powers to the European level. Proposals for such an instrument differ strongly as to

¹ Juncker et al. (2015)

² It is beyond the scope of this chapter to make a detailed case for a common fiscal policy. For an overview of the main arguments in the debate see Guttenberg and Hemker (2018)

the degree of discretion when it comes to spending: Some, such as a cyclical stabilisation fund or an unemployment reinsurance scheme, can be largely rules-based and require no or very little political action once up and running.³ Others, such as a fully-fledged Eurozone budget, rely on continuous political decision-making.⁴ What they all have in common, however, is the need to collectively take decisions at the Eurozone level on the rules that guide the instrument. But who should take these decisions?

A priori, all these decisions could be taken within the existing institutional framework of the EU. European Parliament and Council can take the big-ticket political decisions and can delegate implementation to the Commission. The Council can already today decide in Eurozone-only configurations on Eurozone-only matters, while the Parliament would need to find an appropriate set-up for this. However, after Brexit this is much more a symbolic than a substantial issue. Thus, in view of avoiding institutional duplication, there is a strong case for relying on the existing institutions for decisions on fiscal policy.

There are, however, two arguments for a separate, new treasury as decision-making institution that deserve serious attention:

First, some argue that vertical decision-making should be left to a body of independent experts as SGP enforcement has proven toothless because member states shy away from sanctioning each other. In this line of reasoning, the treasury would be an ECB-like creature. However, this misses the fundamentally political nature of fiscal policy: Such a body would have to overrule elected officials in a policy area where every choice can have massive distributional consequences. The question how taxpayer money is spent goes to the heart of how a society wishes to function. Experts, however brilliant, should not have the power to interfere with this without the appropriate political legitimacy. This is completely different from monetary policy where the ECB exercises its mandate in a very narrow space and has full control over its own instruments. It does not have to overrule anyone. In addition, it is also not clear whether this would work from a political economy point of view: Monetary policy had already been delegated to experts at the national level before moving to the European level. Fiscal policy rests firmly with governments and parliaments. Already, Commission and Council do not have the political stomach to sanction member states. It is not clear why an independent body would have more political capital and legitimacy to do so. Thus, this avenue is not very promising.

The second strand of reasoning goes in the opposite direction: Some argue that member states should remain in control of fiscal policy decisions and thus need to create a treasury where, as in the ESM, they decide without any interference from Commission or Parliament. Some even suggest turning the ESM into the treasury. Such an inter-governmentalisation of fiscal policymaking would be wrong for two reasons: First, both vertical and horizontal decision-making require parliamentary control. National parliaments are unable to exercise this control within a European perspective. Therefore, the Parliament should be fully involved e.g. in setting the rules for a future Eurozone budget and in formulating the fiscal rules. Second, inter-governmental decision-making is a recipe for inertia and leads to inefficient outcomes. It is a major achievement of recent decades that almost all policy areas now fall within the ordinary legislative procedure. Deliberately rebuilding inter-governmental institutions would reverse this trend and set a dangerous precedent.

Thus, both strands of arguments are not convincing. A treasury as a place for decision-making is not necessary as current EU institutions can play that role. And it is not desirable as fiscal policy should neither be handled technocratically in an expert body nor be decided inter-governmentally in an ESM 2.0.

³ See e.g. Dolls (2018) or Enderlein et al. (2013)

⁴ See e.g. Funke et al. (2019)

Do we need a treasury to execute fiscal policy decisions?

Finally, the question is whether we need a Eurozone treasury that would replicate the functions of national finance ministries – preparing legislation and executing political decisions. This could also include the management of jointly-issued debt, just like treasuries at the national level are in charge of debt management. Here again, the first option would be to make use of the existing EU institutional framework, in this case the Commission, before building new institutions. For all its flaws, the Commission is exceptionally skilled at one thing: bureaucracy. Therefore, it would be really hard to argue why the Commission should be circumvented when it comes to preparing and implementing political decisions. This is what it was built for, this is what it is best at. Thus, the case for a separate treasury to execute fiscal policy decisions is even weaker than the case for the treasury as fiscal decision-maker. Instead, the Commission DGs in charge of Eurozone matters could be brought under the single roof of a DG “Treasury” that would prepare college decisions to implement the fiscal rules and administer the common fiscal instrument. Such a DG Treasury could be overseen by a Eurozone Commissioner – or even a Eurozone finance minister. But here as well the rule should be for form to follow function. New shiny titles and institutional changes should be the consequence of increased competence and power, not their precursor.

Conclusion

The Eurozone does not need a separate treasury. The institutional setup of the EU is well-equipped to decide on fiscal policy matters and to execute these decisions. The real problem is that the Eurozone still lacks a common fiscal policy. The current proposals on the table will not remedy this shortcoming.⁵ This is where the focus of the Eurozone reform debate on fiscal matters should lie. However, proponents of such a common policy should avoid using “treasury” as a synonym for a Eurozone fiscal instrument. This confuses the debate and suggests that changing the institutional framework is as important as a change in the policy toolbox – or even more so.

⁵ See e.g. Coeuré (2019)

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This text will also be a chapter in a forthcoming ebook on EMU institutional matters to be published by CEPR and the European Commission.

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