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Competing visions for the future of the eurozone

Blog post by Practice Lead Adam Terry, 14 December 2017

Over the summer, it looked as if there might be a breakthrough in the long-stalled discussions over eurozone reform. Emmanuel Macron had been elected president of France, promising to overhaul the domestic labour market and make the country more economically competitive. German Chancellor Angela Merkel was quick to spot the signal and the opportunity. She suggested that she might in turn be amenable to some long-held French ambitions for the currency union.

Fast forward just a few months, with EU leaders due to hold a 'Euro Summit' tomorrow, and the outlook is a lot bleaker for those advocating for reform. An inconclusive election result in Germany has left Merkel mired in coalition negotiations, with no scope – and no mandate – to engage seriously on eurozone matters. That leaves Macron dangerously exposed. The pain of domestic reforms was supposed to be offset by French wins at the European level. Without the latter, support for the former may begin to ebb away.

That slowdown in political momentum has given rise to a corresponding institutional divide. Both European Commission President Jean-Claude Juncker and European Council President Donald Tusk have looked at the state of play, seen the mid-2019 end of their mandates looming on the horizon – but then drawn completely different conclusions.

For Juncker, the appropriate response is to up the level of ambition. If Germany is distracted, then the Commission must become France's partner and set out a suitably grand vision. That was the tone of his reform package published last week, aiming to create a European Monetary Fund, new eurozone budgetary instruments and a European Economy and Finance Minister within the Commission itself. This is not altruism: German weakness provides Juncker with the opening for an institutional power grab.

Tusk's more downbeat assessment is that, with talks stalled again, countries should focus on those outstanding initiatives that they can still conclude in the next 18 months. His recommendation to leaders at tomorrow's summit will be to leave eurozone ambitions alone and focus instead on getting post-crisis banking reforms finished. That will suit those who, like Dutch Prime Minister Mark Rutte, have always been sceptical of Juncker's and Macron's hopes for grand, sweeping change ("when you have visions, go see a doctor").

It might also suit many businesses, especially those likely to be affected by EU legislation still under consideration. That mid-2019 deadline is not an arbitrary date: anything not agreed by then will fall, and will have to be re-tabled with a new Commission, and new MEPs in the European Parliament – and all the delay and uncertainty that implies.

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Yet for the reformers – even those who do not necessarily share the full scope of Juncker's ambitions – the Commission President's desire not to let this moment pass is understandable. Since the eurozone crisis of 2012, the prospect of meaningful progress has never been as close as it was until recently. To lose that momentum altogether, they argue, would risk deferring the completion of European economic and monetary union indefinitely.

These two worldviews are not mutually incompatible. Injecting a dose of Tusk's pragmatism into Juncker's overreaching ambition could mean using the short-term political deadline of 2019 to focus minds on more urgent legislative files, while tying the wider discussions of eurozone reform to the longer-term horizons that really matter: those of Paris and Berlin.

Sequencing discussions in this way would avoid the risk that Germany's absence is used as an excuse to foist grand French/Commission visions on member states who do not want them. Yet it would also prevent the temptation to kick the issue into the long grass forever. Instead, the best way of securing an outcome for the eurozone that has the broadest possibly buy-in is to have the debate at the appropriate time: when tangible progress has been made on short-term matters, and when the eurozone's biggest economy is back at the table and in a position to negotiate.