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The EU needs a Finance Commissioner
by Michael Heise

The discussion about the pro and contra of a European Monetary Fund is to be welcomed. The Fund itself is problematic. It is to be equipped with tax receipts from the euro member states and be available for countries which have got into difficulty due to soaring debt. But this would create false incentives and is not compatible with the spirit of the European treaties. Fiscal delinquency would be endorsed retroactively. Europe has no lack of institutions for crisis management – that already works well. Europe needs to do more for crisis prevention and prophylactic fiscal discipline. We need more effective monitoring of countries which disregard the EU's fiscal rules. The Fund is meant to do this. But it is not really needed for this purpose.

The creation of a "Finance Commissioner" at the highest EU level would suffice, equipped with the necessary information and monitoring rights and able to impose sanctions if needed – without drawn-out political proceedings. The Finance Commissioner must have the backing of an improved Stability Pact. Instead of the now obsolete three percent deficit limit, the focus needs to be on reducing debt levels. Conceivable would be a deficit cap based on the German model. With clear spending rules, each country should reduce its deficit to zero in the long term, at its own pace and according to its own possibilities. If a country strays off track, sanctions should kick in earlier than at present. Sanctions are useless if the horse has already bolted.

This model does not go as far as proponents of an economic government would like to see. They are calling for greater intervention rights for the EU in national affairs. The debate about higher wages in Germany highlights the dangers of an economic government. Should countries where wage policy has been correctly geared to productivity and inflation exceed their scope for distribution in order to ease the pressure on others who have lived beyond their means on the wage front? The eurozone can count itself lucky that such an economic government with an inbuilt brake on competition does not exist.

It is similarly misleading to measure the competitiveness of an economy solely in terms of its foreign trade surplus. It may flatter us Germans, but it is not correct as our export surplus is in fact a sign of pronounced domestic demand weakness. Put more simply: in Germany a lot is saved but little invested. Lawmakers have some tools to counter this. For one thing, Germany has launched expansionary fiscal programs. In addition, tax relief on lower earnings in 2011 could stimulate languishing consumption. The French finance minister Lagarde has a point here: such a reform would benefit both Germany and Europe. And, finally, we must find a way to boost business investment.

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