



# Editorial : A budget for the eurozone : a priority

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## Editorial

### A budget for the eurozone: a priority

It was only in the 1970s, and in a context of international monetary crisis, that European monetary union projects took shape, in successive stages. The starting point was the October 1970 *Werner* report, which defined both the objectives and methods of a common monetary policy. This report drew two lessons from previous currency crises. It noted that the abolition of intra-Community borders had led to an increasing economic interdependence, but economic policies continued to be nationally-oriented. However, each Member State's economic policy by itself is powerless in controlling crises originating from other States. This diagnosis would lead to the gradual implementation of a unified monetary policy. This change took place in stages, starting with simple monetary coordination and ending with one single currency.

You will recall that the main objective of the Maastricht Treaty signed in early 1992 was to establish a homogeneous European monetary area. Its implementation methods had previously been the subject of in-depth discussion<sup>1</sup>. This goal implied the creation of a single currency, to be preferred over national currencies interlinked by fixed parity relationships, and the implementation of a common monetary policy managed by a European system of central banks.

The increasing interdependence of the Community's economies, the establishment of the single market from 1993 onwards, and, above all, monetary unification have increased the need for coordination in economic, budgetary and monetary policies. This requirement was already implicit in the founding treaties and was constantly reiterated by the Community bodies, the Council and the Commission. Included in the 1986 Single European Act, it was subject to specific provisions in the Maastricht Treaty, since it is the *sine qua non* for a true monetary

1. Otmar Franz Report on the European monetary integration (adopted by the European Parliament in April 1989), and in particular the Delors Report, by an expert committee, adopted by the Commission in April 1990.

unification. Harmonising economic, budgetary and financial policies is indeed a necessity for having a single currency.

The basic idea is simple, even if its implementation is particularly complex. The European community has gambled on (and chosen) economic liberalism. Its logic follows that of the market economy: a competitive market in a stable monetary environment is the priority. All the Member States are therefore both competitors (e.g. to attract savings needed to fund their investments) and inevitably united. Any disorder in one country is likely to be a cause of disruption for the Union as a whole. Inversely, a common monetary policy based on having a single currency means a convergence of financial and economic policies is necessary. Otherwise, some Member States would face serious internal as they no longer have an autonomous monetary policy that they can use to adapt.

Beyond coordination problems, which can be solved pragmatically, there is a question whose answer undoubtedly impacts all the others. ***Can there be monetary federalism without fiscal federalism, and fiscal federalism without political federalism?*** Can a single currency impose itself, internally and externally, without having a coherent, common financial and political project that transcends institutional compromises? The very serious financial issues encountered by some member countries beg the question.

Endangering the stability of the European currency, they immediately raise questions about the effectiveness of the multilateral surveillance instituted by the Union and the harmonization of each State's public finances. Indeed, the Union presents itself as a complex network of States whose decisions, or basically their financial or economic situations, always tend to apply retroactively, positively or negatively, on all the others, through systemic effects. Yet, such a system may implode if the financial sustainability of each State at the very least is not controlled<sup>2</sup>. It is in keeping with this spirit that an idea was submitted in the spring of 2010 saying that States should have their draft budgets examined by the European Commission, or an *ad hoc* body, prior to their debate and adoption by their respective Parliaments. This is a proposal that goes beyond a simple technical risk prevention system. It contains a very embryonic form of fiscal federalism.

At the same time, in the context of the struggle to escape the financial crisis (which, as we recall, concerned Greece, Spain and Portugal in particular) and in order to support the European currency,

2. Understood to be on a steering level.

the European Financial Stability Facility was created on 9 May 2010. However, this situational economic response was not enough to stem the crisis. It was only partly and provisionally a response to a problem directly linked to changes in the international society, namely the development of a vast system facing risks that absolutely requires implementation of regulations on a structural level. That is why a 2012 intergovernmental treaty established another mechanism, the European Stability Mechanism (ESM), which replaced the EFSF. According to the Treaty, all the eurozone Member States are de facto members of the ESM, which may serve to establish an embryonic monetary fund specific to the Union, and which also leads to the possibility of establishing a budget for the eurozone.

Emmanuel Macron, French Minister for the Economy, Industry and Digital Affairs, and his German counterpart Sigmar Gabriel, made remarks to the press<sup>3</sup> on 4 June 2015 that seemed to us to illustrate the outline of such a project. They both stated that “it is important to give the eurozone budgetary power in addition to national budgets in order to improve our ability to employ economic stabilisers and to adapt our budgetary policy to the economic cycle”. In other words, for both ministers the aim was to lay “the foundations for a common budget for the eurozone”. In this forum, they were in favour of funding this budget by levying specific taxes (financial transaction tax, share of corporate income tax), and transforming the European Stability Mechanism into *a European Monetary Fund*. Beyond creating a solid core that firmly integrates economic policies and public finances from the nineteen countries, the system would surpass this framework<sup>4</sup> by assigning the eurozone its own legal persona, and appointing a European Commissioner dedicated to it.

Meeting in Brussels on Monday, 19 February 2018, eurozone finance ministers specifically devoted part of their debates to this subject. Raised on 6 December 2017 by the Commission, the proposal to create an EMF was submitted to Parliament and the Member States. For this last point, the support provided by the ESM to countries such as Ireland, Cyprus, and Spain, which appear to have emerged from the crisis, or Greece, whose aid plan ended in the summer of 2017, should give an added push in this direction.

3. These proposals were widely covered. The forum for both ministers were published in *Le Figaro* (France), *Le Soir* (Belgium), *Die Zeit* (Germany), *La Tribune de Genève* and *Tages-Anzeiger* (Switzerland), *La Repubblica* (Italy), *El País* (Spain).

4. Which is reminiscent of the certainly more ambitious viewpoint of V. Giscard d'Estaing as taken from his work, *Europa – La dernière chance de l'Europe* (XO Éditions, 2014).

*While making this direction a reality may seem very difficult given the opposition of several States, the subject is of such importance that it should be pursued not only through negotiations but also debated on a theoretical level.* It is indeed urgent and even crucial to develop and implement a *European public financial governance doctrine*. Starting with the eurozone should be a priority.

Michel BOUVIER