# New Ideas:

## France, Germany and the Future of the Euro Area

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Graphic design, layout, typography by Aisling Sinclair

# New Ideas: France, Germany and the Future of the Euro Area

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## Executive Summary

This policy brief examines and compares the reforms proposed by the European Commission and by French President Emmanuel Macron to solidify and strengthen the European economy. It analyses the prospects for a renewed Franco-German alliance and concludes by outlining the potential implications of a restructured euro area for Ireland.

## Introduction

The debate around the future of the euro area, and the need to complete the Economic and Monetary Union (EMU) in order to ensure the long-term survival of the single currency zone, is a long running one. A number of important initiatives were set in motion in the wake of the financial crisis. However, with the recovery strengthening and the political landscape at a crossroads, the question of if and how to strengthen economic convergence and coordination in Europe is once again coming to the forefront. The Commission outlined its vision for completing the EMU architecture in a reflection paper published in May 2017. This followed another important event for the future of the euro earlier that month – Emmanuel Macron's victory in the French presidential election.

The new French President would like to relaunch the Franco-German alliance as a force for further European integration. In the aftermath of the sovereign debt crisis, and with the subsidence of the threat of Eurosceptic politicians gaining power in key Member States, such an alliance could give momentum to previously stalled efforts to address the remaining flaws of the euro area. However, Germany's confidence in France has waned due the latter's economic underperformance, its repeated violations of EU fiscal rules and its perceived ambivalence about domestic reforms. While the landscape may change after the Federal elections in September 2017, Germany's aversion to further risk sharing in the euro area also remains a significant obstacle to the deepening of EMU.

The proposals by both President Macron and the Commission are welcome in that they would seek to stabilise, solidify and strengthen the euro, membership of which has been to Ireland's great benefit. However, elements of the proposals, such as steps towards corporate tax harmonisation, are causes of concern for the Irish Government. There are also some questions around what the impact of a renewed Franco-German alliance in the area of economic policy might be for smaller Member States.

## The Proposals

The European Commission's reflection paper on the *Deepening of the Economic and Monetary Union* detailed its latest set of proposals for EU economic policy. Published on 31 May 2017, the paper builds upon the vision outlined in the Five Presidents' Report on *Completing*

*Europe's Economic and Monetary Union* of 22 June 2015. The content of the May 2017 paper reflects the new political landscape of Europe - one where Britain's departure places an added emphasis on euro area countries and where greater attention is being paid to how the EU can positively impact upon its citizens' lives.

President Macron, who advocated deeper EMU when he served as Minister for the Economy under President François Hollande, set out his proposals for the future of EU economic policy in his March 2017 manifesto. While it does not go into the same detail as the Commission's reflection paper, Mr Macron's *En Marche!* manifesto does contain an important section on EMU. The new French leader predicted in a speech at Humboldt University in Berlin in January 2017 that, should the status quo hold, the euro would not survive another decade.[1] He called for a collective recognition that the euro is incomplete and requires major reforms.

There are a number of similarities between the Commission's proposals and those of President Macron, as illustrated in Table 1 on page 5. The lack of a s**tabilisation function** for the euro area, which would serve to **stabilise the diverging and unsynchronised business cycle** movements in individual Member States, is widely considered to be one of the euro area's most substantial flaws. To address this, Mr Macron's manifesto proposes the creation of a **euro area budget** with three distinct functions:

(i) To invest in the future.

(ii) To provide emergency financial assistance via the European Stability Mechanism.

(iii) To respond to economic crises.

Under this proposal, a **euro area Finance Minister** would oversee the budget, and would in turn be held accountable by a **euro area Parliament.** This new body would comprise MPs and MEPs from euro area countries. Euro area Member States' access to the budget would be conditional on certain **undefined fiscal and social rules**.

The Commission's paper acknowledges the "ongoing debate" about a euro area budget, which it says could address both stabilisation and convergence objectives. Pierre Moscovici, the European Commissioner for Economic and Financial Affairs, said on 1 June 2017 that it had been his personal view "for a long time" that the euro area needed a dedicated budget.[2] However, the reflection paper states that a euro area budget "may rather be a longer-term goal". It focuses instead on three different options for establishing a euro area stabilisation mechanism:

(i) **A European Investment Protection Scheme** that would support public investment in Member States during economic downturns.

(ii) **A European Unemployment Reinsurance Scheme** that would provide support to national unemployment schemes in crisis situations.

(iii) **A Rainy Day Fund** that would disperse funds to Member States in a shock situation.

While Mr Macron's manifesto calls for the establishment of a euro area Parliament, the Commission paper calls for an agreement on the **democratic accountability of the euro area** to be signed by the actors involved in the zone's governance, including the Commission, the Eurogroup and the European Parliament, by June 2019.

The Commission paper places significant emphasis on the need to strengthen the legitimacy, democratic accountability and effectiveness of economic governance and institutional architecture in the EU. It proposes putting in place a **euro area Finance Minister** – a suggestion also made by President Macron – as one of the ways in which to address this need. While President Macron's manifesto simply stated that the euro area Finance Minister would oversee the euro area budget, the Commission paper goes into greater detail on the possible responsibilities of such a position. The **EU Finance Minister** would be Chair of the Eurogroup, which would become a full-time position, and Chair of the Economic and Financial Affairs Council (ECOFIN). The Minister's functions may also, the paper states, be merged with

1 Euro may not exist in 10 years, France's Macron says, Reuters (10 January 2017) http://www.reuters.com/article/uk-germany-france-macron-idUSKBN14U2HW

2 Keynote speech by Commissioner Moscovici at the Brussels Economic Forum 2017 (1 June 2017) http://europa.eu/rapid/press-release_SPEECH-17-1509_en.htm

the functions of the Commissioner responsible for EMU.

The Minister would head up a new euro area Treasury, which the Commission says may emerge "at a later stage" of EMU deepening in order to oversee some existing and some new functions. Mr Macron's manifesto does not specifically call for the creation of a **euro area Treasury**, although the establishment of such a body is implied by the proposals for both a euro area budget and a euro area Finance Minister. The Commission paper outlines the potentially wide-ranging responsibilities of a euro area Treasury including:

(i) The economic and fiscal surveillance of Member States, supported by the European Fiscal Board.

(ii) The management of the euro area stabilisation mechanism.

(iii) Responsibility for the European Stability Mechanism, or a proposed European Monetary Fund.

The Treasury would also oversee the issuing of a **European safe asset**, which would be comparable to US Treasury Bonds and would serve to improve the transition of monetary policy. The Commission believes this should reduce issues associated with the bank-sovereign doom loop. A European safe asset is one of a number of proposals to feature in the Commission document but not in the *En Marche!* manifesto. This is understandable for a variety of reasons, in particular given the fact that Mr Macron's manifesto was a political document largely for domestic consumption while the Commission paper is a policy document. The Commission paper is divided **into two time periods: 2017 to 2019 and 2020 to 2025**. In addition to some of the measures outlined above, the Commission proposes the following measures for implementation by 2019:

- Agreement on a **European Deposit Insurance Scheme** (EDIS).
- A common backstop for the **Single Resolution Fund.**
- A strategy to reduce non-performing loans.
- A stronger economic policy coordination process (European Semester).

Other steps proposed by 2025 are a strengthened link between the **EU multiannual financial framework and national level reforms** and - conditional on greater integration, managed economic interdependence and stronger market discipline – **the simplification of the EU fiscal rules**. The establishment of a **European Monetary Fund**, to give the euro area "more autonomy" in comparison to dealings with other international institutions, and **unified external representation of the euro area** are also proposed in the roadmap to 2025.

Many of the proposals made in the Commission paper of May 2017 and in President Macron's manifesto of March 2017 build upon the proposals made in the Five Presidents' Report. The Presidents of the European Commission, the European Council, the Eurogroup, the European Central Bank and the European Parliament wrote a June 2015 paper, which sought to address the design flaws of the euro area in two stages.

Some proposals outlined for **'Stage 1'** have been acted upon or set in motion, such as the **revamped European Semester, the launch of the Capital Markets Union, and the establishment of the European Fiscal Board**. Efforts to complete the Banking Union are continuing despite ongoing political disagreement over the EDIS proposal. The European Council approved a recommendation for Member States to establish National Productivity Boards in September 2016. Proposals under the more ambitious **'Stage 2'** of the report, which included a stabilisation function and a Treasury for the euro area, have yet to be tackled but may be given more momentum following the French election result and the publication of the reflection paper on deepening EMU.

***Table 1: The Future of EMU – Comparing the European Commission and President Macron's proposals***

| **Proposal** | **European Commission Reflection Paper on EMU** *May 2017* | **President Macron's *En Marche!* campaign manifesto** *March 2017* |
|---|---|---|
| **A stabilisation function for the euro area** | **Yes** – three options outlined:<br>1. A European Investment Protection Scheme<br>2. A European Unemployment Reinsurance Scheme<br>3. A Rainy Day Fund<br><br>A euro area budget would be a "longer term goal". | **Yes** – through a **euro area budget** with three distinct functions: to invest, to respond to crises and to provide emergency financial assistance.<br><br>Member States' access to the budget would be conditional on certain undefined fiscal and social rules. |
| **Euro area Treasury** | **Yes** – such a body could oversee:<br>1. Economic and fiscal surveillance<br>2. Macroeconomic stabilisation function/ euro area budget<br>3. Coordination of proposed European safe asset<br>4. The European Stability Mechanism/ proposed European Monetary Fund | While the manifesto **does not specifically mention** a euro area Treasury, the establishment of such a body is implied by President Macron's call for a euro area budget, Finance Minister and Parliament. |
| **Euro area Finance Minister** | **Yes** – with responsibility for the euro area Treasury. The euro area Finance Minister would also be Chair of the Eurogroup and ECOFIN. | **Yes** – with responsibility for the euro area budget. |
| **Euro area Parliament** | The reflection paper **does not specifically mention** a euro area Parliament but it does propose agreement be reached on the democratic accountability of the euro area by June 2019.<br><br>However, speaking on June 1 2017, Commissioner Moscovici said such a body would be required to allow euro area MEPs to hold the budget and the euro area Finance Minister accountable. | **Yes** – consisting of MPs and MEPs who would hold the euro area finance minister accountable. |

## Prospects for a Franco-German euro area alliance

Germany's stance will be crucial to both President Macron's prospects of delivering on his proposals for the euro area and to many of the proposals outlined in the Commission reflection paper. Across the political divide in Germany, there remains fear and scepticism about deepening integration and entering into some form of fiscal union with Member States whose economies are on a far weaker footing than Germany. The challenge of achieving political agreement on the grand plans of Mr Macron and of the Five Presidents' Report were illustrated in stark terms by the now stalled efforts to complete the Banking Union. Germany will not sign off on proposals for a European

Deposit Insurance Scheme because it does not believe there has been sufficient risk reduction in the European banking sector to justify risk sharing. In its report on financial integration in the euro area in 2016, the ECB found that there had been no progress in aggregate financial integration and that cross-country risk sharing "remains quite low".[3]

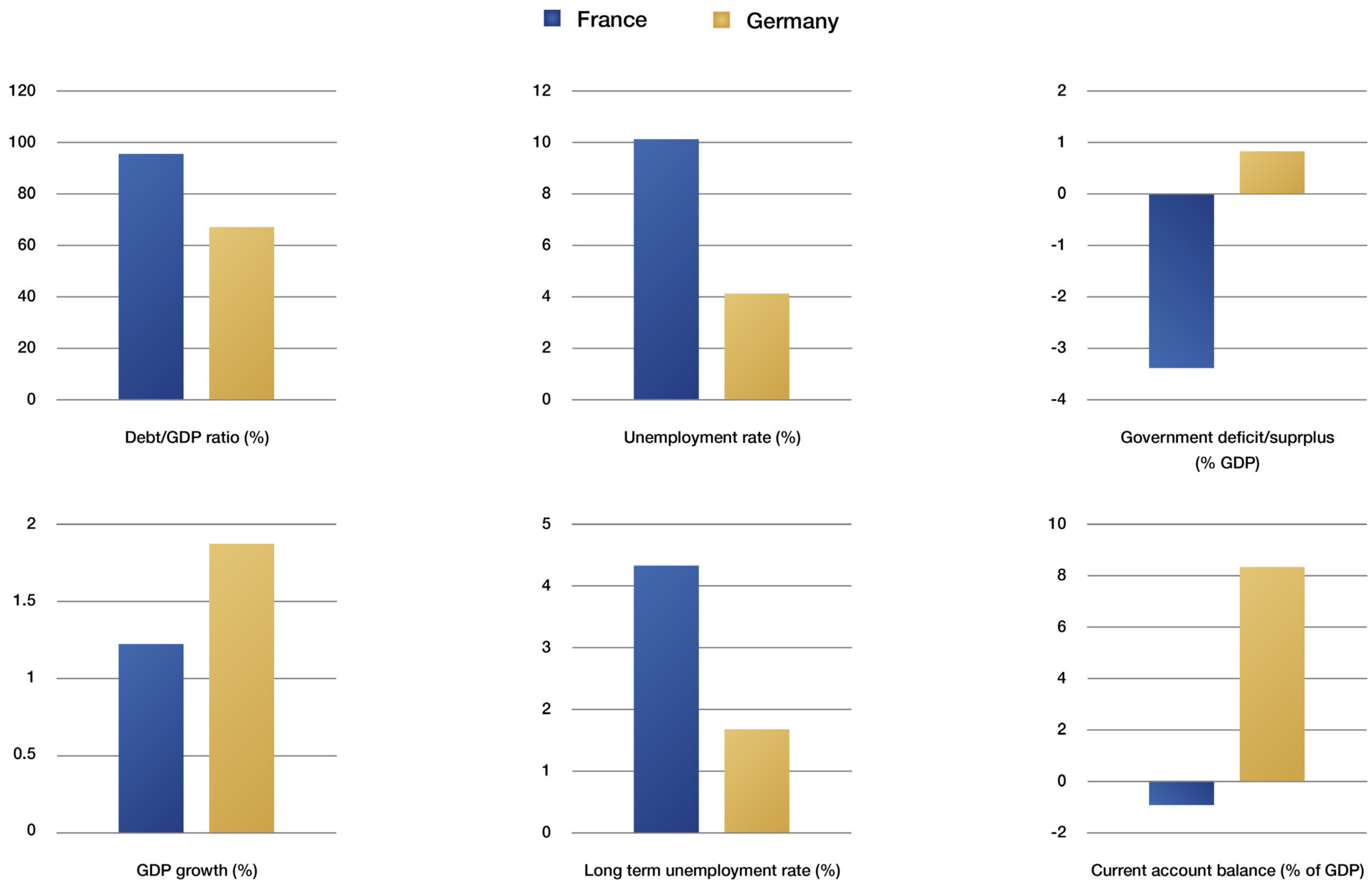
This trade-off between risk reduction and risk sharing, and the animosity in Germany towards fiscal transfers between Member States through a centralised EU or euro area level mechanism, poses a significant obstacle to further deepening.

Mr Macron's resounding victory over Marine Le Pen and her far right party was warmly welcomed in capitals across the continent. In Berlin, Chancellor Angela Merkel said the new French President carried the hopes of millions of French people, and of many people in Germany and the whole of Europe.[4] However, she said Germany would not change its economic policy positions following the French election. She also hinted that Mr Macron should focus on **addressing the structural issues in the French economy** before turning his attention towards euro area reform. This is something that has been echoed by Jean-Claude Juncker, President of the European Commission, and by Wolfgang Schäuble, Germany's Minister of Finance.

On the issue of fiscal discipline, President Macron pledged in his manifesto to bring the French deficit below the 3% of GDP requirement set out in the fiscal rules as doing so is the "condition for a constructive discussion of our priorities for Europe". He also committed to a €60 billion reduction in annual public spending savings by 2022.[5]

***Snapshot: The French and German economies in 2016***

*Data: Eurostat*




3 *Financial integration in Europe*, ECB (May 2017) https://www.ecb.europa.eu/pub/pdf/other/ecb.financialintegrationineurope201705.en.pdf?1c8bc127d44dc2fc5ce32d226df9b7dd

4 Merkel rules out eased Eurozone spending rules to help Macron, The Financial Times (8 May 2017) https://www.ft.com/content/2d3004a2-33ee-11e7-bce4-9023f8c0fd2e

5 The public finances section of the *En Marche!* programme for government https://en-marche.fr/emmanuel-macron/le-programme/finances-publiques

On 23 May 2017, the President began meeting with leading trade union figures in order to win their backing for, or at least temper their opposition to, his plans to reform the French labour market.[6] He is hoping to secure quick passage through parliament of legislation that would give employers greater flexibility in the labour market and increase their incentives to hire new workers through measures that would seek to increase the amount of in-house agreements between individual companies and their employees.

President Macron's party, under the new *La République En Marche!* banner, secured a decisive majority in the French legislative elections and, following the second round on 18 June 2017, it now holds 350 of the 577 seats in the National Assembly.[7] The result should strengthen the President's hopes of passing reforms through parliament. The disappointing voter turnout (48.7% in the first round and 42.6% in the second round) poses some questions about the degree of popular support for Mr Macron's agenda, although the President and his supporters can point to the stronger turnout in the presidential election (77.8% in the first round and 74.6% in the second round). With a weak opposition, the most significant obstacle, absent a deal with trade unions, may come from demonstrators on the streets.

While labour market reforms are a key and challenging priority, they will only be part of the puzzle in trying to reduce France's stubbornly **high unemployment rate, which was 10.1% in 2016**. The *En Marche!* election manifesto contained pledges to improve the availability and effectiveness of apprenticeship schemes on offer to people under 25 years of age and to give schools greater autonomy in order to "stimulate innovation".[8]

## Franco-German Cooperation

President Macron appointed Bruno Le Maire, from *Les Républicains*, as Minister of the Economy on 17 May 2017. Minister Le Maire, who speaks fluent German, met with Wolfgang Schäuble in Berlin on 22 May 2017 before the pair travelled together to a meeting of the Eurogroup in Brussels. In a joint statement, they said an agreement was reached to establish a **Franco-German working group** that will propose an "ambitious roadmap" towards deeper economic integration.[9] The two ministers, who will head the working group, plan to adopt the roadmap at a Franco-German Economic and Financial Council meeting in July. The joint statement is relatively light on detail, but it does state that:

- Deeper coordination and integration of euro area economic policies are necessary.
- The completion of the Banking Union is a "matter of priority".
- National reform policies need to be strengthened.
- High public and private debt levels, and macroeconomic imbalances, must be reduced.
- Convergence of corporate taxes should be promoted.

Also of note in the statement is the prospect of enhanced Franco-German industrial cooperation and the possibility that bilateral initiatives between the two countries could be used as a staging ground for future EU or euro area wide policies. On the question of reforming the French economy, Minister Le Maire said France would "respect its commitments in terms of deficit reduction" not to please Germany or the Commission, but because having sound public finances would be to the benefit of France.[10]

Minister Schäuble, a hugely important figure in the euro area, previously said he was in agreement with Mr Macron about the need to

6 President Macron's agenda 22-28 May http://www.elysee.fr/Agenda/index/2/agenda-de-m-le-president-de-la-republique-du-lundi-22-mai-au-dimanche-28-mai-2017

7 43 of these seats are held by LREM's partners in the Mouvement Démocrate (MoDem)

8 The education section of the *En Marche!* programme for government https://en-marche.fr/emmanuel-macron/le-programme/education

9 Joint press release by Minister Schäuble and Minister Le Maire (22 May 2017) http://www.bundesfinanzministerium.de/Content/EN/Pressemitteilungen/2017/2017-05-22-PM15-LeMaire.html;jsessionid=15E28686904316061140F46487BDCBD3

10 France to Berlin, Brussels: This time we're serious http://www.politico.eu/article/france-to-berlin-brussels-this-time-were-serious-bruno-le-maire-economy/

reform the euro area but he warned that some of the new French President's proposals, such as a euro area Finance Minister and budget, would require **Treaty change**. Mr Schäuble contends that treaty change is not a realistic proposition at this moment in time and that there is therefore a need for practical steps to be taken at an intergovernmental level.[11] In an interview with *La Repubblica*, the Minister offered an alternative solution to strengthening the single currency, namely a euro area Parliament that would oversee an enhanced, IMF style European Stability Mechanism.

Despite Mr Schäuble's apparent hesitancy to consider EMU reforms that would require Treaty change, Chancellor Merkel indicated following her meeting with President Macron in Berlin on 15 May 2017 that Germany would be **open to Treaty change should it be necessary in order to strengthen the euro area**. Speaking alongside the Chancellor, President Macron said the prospect of Treaty change would not be a "taboo subject" for him.[12] Mr Macron said that implementing reforms to the euro area would require "mutual respect and very close cooperation" that respected the differing sensitivities of French and German citizens.

Martin Schulz, the leader of Germany's Social Democrats and a co-author of the Five Presidents' Report, has expressed caution about measures that would require Treaty change but said he was open to a euro area budget to allow Member States to "tackle things together".[13] Sigmar Gabriel, Germany's Foreign Minister and former leader of the Social Democrats, has urged the Chancellor and Minister Schäuble to reconsider their prioritisation of **fiscal discipline and to show flexibility** towards Mr Macron's proposals. Mr Macron's manifesto builds upon an article in *The Guardian* that he co-wrote with Minister Gabriel in June 2015.[14] In the article, written when the pair were both Economy Ministers in their respective countries, they **advocated economic and social convergence through structural and institutional reforms, as well as a harmonised corporate tax rate**.

Mr Macron has spoken about the need to "reduce the different gaps in social and tax considerations between Member States". He was responding to a question from *RTÉ News* about Ireland's 12.5 percent corporate tax rate.[15] Ireland has long opposed attempts to harmonise corporate tax rates, including the October 2016 proposal by the Commission for a Common Consolidated Corporate Tax Base (CCCTB).[16] The *En Marche!* manifesto says that tax arrangements such as those between Ireland and Apple, which the European Commission found amounted to state aid, distort competition in Europe.[17] "We will fight against tax arrangements between states and multinational corporations", the manifesto pledges.

The Free Democratic Party (FDP), a potential junior coalition partner for Chancellor Merkel, is sceptical about President Macron's proposals. Christian Lindner, the leader of the FDP, said in an interview with *Politico* on 21 June 2017 that there was no need for a euro area Parliament or a euro area budget.[18] He warned that moves towards standardisation and debt pooling in the euro area would lead to a "Soviet Union style system, in which at some point, the systematic losers will turn against the European Union and the euro".

The ongoing election campaign is an important factor to consider when assessing Chancellor Merkel's reaction, at least publicly, to the Macron blueprint for economic convergence. At a meeting with her French, Italian and Spanish counterparts in Versailles on 7 March 2017, the German leader said that without further development Europe may get "stuck" and run into "danger".[19] Should she secure re-election, Chancellor Merkel may have the leeway and domestic political capital to consider some of the grand proposals being touted as ways to solidify the euro and secure its future. Should Mr Schulz become Chancellor in September, which polls suggest he will not, it would appear that he would also be a willing partner for Mr Macron in implementing the French President's vision for the euro area.

11 Germany's Schaeuble says Macron faces 'terribly difficult' decisions, Reuters (10 May 2017) http://www.reuters.com/article/us-germany-france-idUSKBN18623Z?il=0

12 Macron, Merkel say ready to change EU treaties if needed, AFP video (15 May 2017) https://www.youtube.com/watch?v=XsdR_01Kex8

13 Schulz backs Macron on Eurozone investment plan, The Financial Times (10 May 2017)

14 https://www.theguardian.com/commentisfree/2015/jun/03/europe-france-germany-eu-eurozone-future-integrate

15 Gap between EU member states over tax systems must be 'reduced', RTÉ News (5 May 2017) https://www.rte.ie/news/world/2017/0504/872591-emmanuel-macron/

16 The Common Consolidated Corporate Tax Base (CCCTB) – Will This Time Be Different, IIEA Blog (10 February 2017) http://www.iiea.com/blogosphere/the-common-consolidated-corporate-tax-base-ccctb--will-this-time-be-different

17 *En Marche!* programme for government https://storage.googleapis.com/en-marche-fr/COMMUNICATION/Programme-Emmanuel-Macron.pdf

18 German liberal chief targets conventional wisdom, Politico (21 June 2017) http://www.politico.eu/article/christian-lindner-german-liberal-chief-targets-conventional-wisdom/

19 EU leaders embrace multi-speed Europe amid tensions, BBC News (7 March 2017) http://www.bbc.com/news/world-europe-39192045

## Implications for Ireland

Support for the EU, and the euro, remains high in Ireland. The last Eurobarometer survey on support for the single currency, published in October 2016, found that 81% of respondents in Ireland believed the euro had been a positive development for the country.[20] When asked if there should be more or less economic coordination between euro area Member States, 18% said the current level of coordination was appropriate, 47% said there should be more coordination and 8% said there should be less coordination. This popular support for greater integration is shared across euro area countries according to the survey. Ireland would benefit from many of the proposals made in both the Five Presidents' Report and the reflection paper on EMU.

However, it is clear from the outset that Ireland is likely to oppose certain aspects of deeper integration proposals. Proposals relating to the **harmonisation of corporate tax** is the most obvious area where Ireland's interests are likely to diverge from the Franco-German position. Research published by the ESRI in December 2016 estimated the potential impact of the Commission's CCCTB proposal on the Irish economy.[21] It showed CCCTB resulting in a 4.6% decline in overall FDI flows to Ireland and a 5.7% decline in corporation tax revenues. Ireland was found to be one of the most negatively affected Member States in both these categories, while France benefited the most both in terms of an increase in FDI flows and an increase in its corporation tax revenues. Germany was found to have a slight decrease in FDI flows and a larger decrease in corporation tax revenues.

In his address to an IIEA-European Commission seminar on 2 June 2017, Michael Noonan T.D., then Minister for Finance, reiterated Ireland's opposition to the CCCTB proposals. Harmonisation of national legislation in indirect taxation requires a **unanimous vote** in the Council. Ireland could veto the CCCTB proposals should they be put to a Council vote. However, as noted by Dr Aidan Regan in testimony to the Joint Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach, on 30 May 2017, it is politically difficult "for a small open economy on the periphery of north western Europe to become the biggest obstacle to what the core strategic players in this process want".[22] The UK's departure from the EU is set to give the Franco-German axis more influence and power in directing the future of EMU. For Ireland, which has tended to align with the UK on economic policy matters, this new landscape presents a number of questions and challenges.

In his remarks of 2 June 2017, Minister Noonan said he believed the Commission is now promoting the interests of large Member States rather than protecting smaller Member States. "As far as I see now, in its modern manifestation, **the Commission promotes the interests of the larger countries**", Minister Noonan remarked. He said he would be reluctant to "rush in" to steps towards a fiscal union without assurances that the Commission "would revert to its previous practice, if not mandate, of standing by smaller countries and protecting their interests".

## Conclusion

The case for completing Economic and Monetary Union, both through finishing partially completed initiatives such as the Banking Union and through new endeavours such as a stabilisation mechanism for the euro area, is compelling. The financial crisis exposed the underlying weaknesses of the single currency zone and, while the recovery has now firmly taken hold, the long-term political and economic viability of the euro requires additional measures beyond those taken in the depths of the downturn.

The Commission paper builds on the recommendations of the Five Presidents' Report, providing an important roadmap on the options for completing financial, economic and fiscal union. Valdis Dombrovskis, the Vice-President of the European Commission with responsibility for the euro and social dialogue, said the goal of the document is to "get a sense of the level of ambition among Member States".[23]

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20 Flash Eurobarometer 446 (October 2016) https://ec.europa.eu/info/about-european-union/euro/public-opinion-euro_en

21 Ireland's Economic Outlook: Perspectives and Policy Challenges, ESRI (December 2016) https://www.esri.ie/pubs/EO1.pdf

22 Testimony by Dr Aidan Regan to the Joint Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach (30 May 2017) https://www.kildarestreet.com/committees/?id=2017-05-30a.363

23 Remarks by Valdis Dombrovskis at a College Seminar on social and EMU reflection papers (5 April 2017) https://ec.europa.eu/commission/commissioners/2014-2019/dombrovskis/announcements/read-out-college-seminar-social-and-emu-reflection-papers_en

Mr Macron's plan for the euro area is certainly not lacking in ambition. If enacted, it would represent a major deepening of European integration. The next step will be to identify the measures that would be met with broad agreement by the Member States and would begin the process of developing a shared vision of how EMU should evolve over the next decade.

The challenges to and criticism of the proposals put forward by the Commission and by the new French leader are substantial. Several Member States and Germany in particular, remain extremely cautious about further integration in the euro area, while any attempts to move towards tax harmonisation will be met with staunch opposition from the Irish Government. At a time of heightened national self-interest, taking grand steps towards greater economic integration and coordination may ultimately prove unfeasible, while the continued divergence in economic performance across Member States remains a major challenge.

The period after the German elections in September should shed greater light on the prospects for the future of the euro. In light of the current political and economic environment, progress, should it happen, is likely to come in small steps rather than giant leaps. Mr Macron defied the odds by winning election to the Élysée a little more than a year after founding his own party. Securing the support of Germany will be essential if he is to defy the odds once again and deliver on his vision for the euro area.

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