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Towards a new architecture for the euro area: An early appraisal of the Juncker Commission

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We provide an early assessment of the Juncker Commission's contributions to the ongoing reform of the euro area. In doing so, we present a chronological summary of the reform process up to 2014. At the time, the euro area architecture had undergone many changes. These were mainly focused on risk prevention in the tradition of the original Stability and Growth Pact.
The self-proclaimed priority of Juncker was the translation of already agreed upon reforms into European law and to add mechanisms for risk sharing in the public and private sector. Other objectives included kick-starting investment in Europe, increase transparency and democratic accountability and to make the workings of the Commission more visible to improve public support for the common institution.
The Juncker Commission faced a Sisyphean task. A slow bur steady euro area-wide economic upturn, positive for member states, eased their economic pressures and led to a general reform fatigue. Moreover, the Brexit decision in the United Kingdom absorbed resources as well as attention and made reform decisions that require unanimity among the member states difficult.
In Juncker's term, reforms moved at glacial speed, a major breakthrough with regard to adding risk sharing to the euro area architecture could not be achieved. In his term however, the Commission was able to provide considerable support for investment in Europe and to increase public support for the European project which was at a record low when Juncker took office.

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1 Introduction

The Juncker Commission came into office on 1 November 2014, six years after the onset of the global financial crisis that triggered the sovereign debt crisis in the euro area. What followed were major adjustments to the euro area architecture.

At the time, as a result of the crisis, a number of member states still needed financial assistance. These countries were required to follow the terms of economic adjustment programs agreed between them, the European Central Bank (ECB), the International Monetary Fund (IMF) and the European Commission.

These reform packages introduced in the midst of the crisis were a mix of European directives and regulations as well as intergovernmental treaties between subsets of member states of the European Union (EU). Meanwhile, the euro area as a whole had been leaving the recession and a slow recovery had started. This opened a window of opportunity to translate intergovernmental agreements put in place in response to the European debt crisis into European law and for further reform of the euro area.

This paper focuses on how the Juncker Commission implemented the agreed upon changes to the euro area architecture, applied the new framework in place and used the new set of instruments at its disposal to monitor the adherence of members to the new rules in order to prevent future crisis in the euro area and the European Union as a whole.

Moreover, this paper presents the view taken by the Juncker Commission and its predecessors on the weaknesses of the euro area. It argues that the euro area continues to require reform and adjustments. Finally, the paper looks at current policies in member states against the institutional and legal changes the Juncker Commission implemented while in office through 2019. It draws conclusions whether the Juncker Commission was effective and successful in the pursuit of its agenda.

The paper is organized as follows. Section 2 sets out the reforms undertaken by the euro area in response to the European debt crisis. Section 3 introduces the policy agenda of the European Commission lead by then President Jean-Claude Juncker. We discuss the proposals and activities of the Juncker Commission in section 4. Finally, section 5 presents concluding remarks and a brief outlook on the remaining tasks that should be prioritized by the Commission under President Ursula von der Leyen.

2 The European debt crisis and its impact on the euro area architecture

2.1 The original architecture of the euro area

The euro area consists of nineteen sovereign nations sharing one currency and are therefore subject to the unified monetary policy of the ECB. The euro area does not feature a similar architecture for fiscal and economic policies that mirrors the unified decisions of its central bank.

Integrated financial markets are crucial for the transmission of monetary policy. The supervision of financial institutions and the banking systems was conducted on national level when the Great Recession hit the EU in 2008. Thus, financial markets were another area in which unified monetary policy was confronted with heterogeneous national set-ups.

A unique characteristic of the European Monetary Union is the lack of a common safe asset. Member states access financial markets as individual borrowers. The ECB relies on government bonds for the conduct of open market operations. Since the introduction of the euro, it accepted member states' debt as central bank collateral. This was one important reason for the convergence of member states' debt ratings and sovereign yields in the decade before the Great Recession hit. However, it did not reflect the heterogeneous nature of national fiscal policies of the member states. Countries with below average fiscal sustainability were able to borrow at interests rates that did not adequately reflect their default risk.

Government debt plays an important role in the balance sheet of private banks. One undesirable side effect of this set-up was that private banks had and still have a strong home bias in their holdings of safe assets, i.e. they prefer to buy bonds issued by their home countries. Thus, as some member states of the euro area were loosing the trust of lenders on international financial markets, it directly affected the balance sheets of their national banking sector negatively. Triggering a vicious cycle, national governments were forced to provide capital to support failing banks. This further weakened their fiscal position. In turn, doubts in their ability to service issued liabilities further drove up the yields on their issued debt. As a result, increased amounts of capital were needed to support the private banking system. The phenomenon is called the bank-sovereign feedback loop, Gerlach et al. (2010) labeled it the sovereign-bank doom loop.

Overall, the euro area architecture displayed a number of vulnerabilities that led from the Great Recession by 2010 into a sovereign debt crisis known as the European debt crisis or simply the euro crisis. At the time, it became apparent that the euro area was ill-prepared to respond appropriately and in a coordinated manner to the imminent crisis.

The original architecture of the EMU aimed at preventing potential crisis by imposing a set of rules enshrined in the Stability and Growth Pact[1] (SGP). By design, it was asymmetric and incomplete.

The original SGP was aimed at preventing imbalances arising from diverging national fiscal policies in individual member states. The thresholds for national government debt and current government deficit, 60% and 3% of national gross domestic product (GDP) respectively, and the so-called no bailout clause have long become common knowledge in the euro area. These rules were narrowly focused at preventing excessive national deficits and debt while austerity and its national effects as well as spillovers from national economic policies on other member states were not addressed.

The original SGP was an *instrument to prevent risks* originating from unsustainable national fiscal policy. It lacked a framework for the coordination of economic policies, appropriate provisions for risk prevention in the private sector or *risk sharing* in either the public or private sector. The idea was that, if all member states followed a sustainable fiscal path in normal times, there would be sufficient fiscal space to counter any

[1] The SGP is part of the Treaty on the Functioning of the European Union, Articles 121 and 126[1].

national economic crisis without the need for macroeconomic stabilization tools for the euro area as a whole. The no bailout clause that prohibited the mutual guarantee of national debt among member states was introduced to enforce this idea. If a country put itself into a position where it lost access to debt financing, it would have to resolve the crisis on its own. The clause was intended to impose fiscal discipline on euro area member states by imposing prohibitively huge costs in case a country would fail to adhere to the common rules.

The problem with such an idea is that no country, in particular when it is a member of a currency area, operates in a vacuum. A sovereign debt crisis often calls into question the solvency of neighboring countries with similar characteristics. Thus, creating the danger of contagion and other negative spillovers. The Asian financial crisis of 1997 and the Russian financial crisis of 1998 provided painful lessons for such problems.

Thus, it can be argued that the no bailout clause never was a credible or viable option. According to Buiter and Rahbari (2010), the original euro area architecture implied the possibility for mutual financial assistance. They argue that the Treaties provide a legal basis for such actions rendering the no bailout clause equivalent to a Potemkin village. This view is invigorated by the ruling of national constitutional courts as well as the European Court of Justice. They confirmed the legality of the financial assistance provided to several countries in the course of the European debt crisis.

A different line of argument is presented by Ardagna and Caselli (2012). They apply a game theoretic approach to show the substantial costs of following through with the no bailout clause, i.e. contagion and negative spillovers. From their national perspectives, it was the best and least costly choice for euro area members to abandon the no bailout clause as the worst case materialized.

The discussion of Ardagna and Caselli (2012) provides an example for a situation in which the interests of national governments, in the short run, conflict with the common interests of the euro area, in the long run. If the no bailout clause was credible and European countries would have followed through with this approach, it would have provided a powerful lesson to follow the rules in the future. However, the short run pain already felt by European countries facing increasing financing costs prevented such an outcome. The potential common gains from credible rules which would have mitigated or even completely removed the problem of negative spillovers from a national debt crisis in the long run did not make up for the short run pain in the cost benefit calculations of the European governments.

In fact, the rules of the original SGP were never enforced and financial sanctions never imposed. The result was insufficient observance of the framework after the introduction of the euro. Many member states were in a vulnerable fiscal position having accumulated large stocks of public debt. Moreover, the debt of the private sector had reached unsustainable levels in some member states as well. Which, together with other problems, such as productivity lagging behind that of the euro area average or substantial and persistent current account imbalances, added to their overall weak position.

Consequently, the European Union had to deal with member countries such as Portugal, Ireland, Greece and Spain that needed substantial financial and technical assistance in the wake of the Great Recession. The EMU as a whole was placed in such a precarious position that the future of the euro was called into question by fears of reversibility of the common currency, see European Central Bank (2012) or European Commission (2012) for a more detailed discussion.

2.2 The European Commissions' analysis

The European Commission provided an analysis of the vulnerabilities of the euro area and suggested fundamental adjustments in its communications, European Commission (2010a,b). A summary of both can be found in European Commission (2012) and was regularly reiterated by subsequent publications of the Commission and Scientists, see Juncker et al. (2015b) and Benassy-Quere et al. (2018), to offer two prominent examples. The consensus is that a more resilient euro area architecture, or good governance in general, should rest on two pillars: *Risk prevention* in order to avoid catastrophic results such as the euro crisis and *risk sharing* to minimize disruptions as well as costs in cases of risk prevention mechanism failure. The major pitfall of the original SGP was its narrow focus on rules for risk prevention in the public sector, i.e. the soundness of fiscal policy. A more resilient and comprehensive euro area architecture needs to include private and public risk sharing as well as risk prevention for both areas. A general outline of such a framework was suggested by the European Commission. The risk prevention elements of these suggestions rely on common rules for the public and private sector.

To ensure the stability of the common currency and to enable counter cyclical policy actions, sustainable fiscal policy as well as an integrated and resilient financial market are necessary preconditions. However, there is the possibility of exaggerations in the opposite direction. Paredes et al. (2014) document that in response to the Great Recession and the European debt crisis, public spending cuts were heavily biased towards public investment instead of public consumption. As public capital in general complements private investment, e.g. the public road to a private factory, such spending cuts are not only short sighted but endanger the future growth potential of the economy, should they occur over a prolonged period. A phenomenon the literature usually refers to as hysteresis. The lack of proper accounting for public investment in the SGP was known and criticized years before the Great Recession, e.g. by Blanchard and Giavazzi (2004). Rules need to address imbalances symmetrically and prevent the use of strategies that patch over problems in the short run just to create even bigger difficulties in the long run. In its communications, the Commission stressed the need to maintain a sustainable level of investment time and again and suggested a common instrument to support and maintain sufficient levels of public investment in member states, even in times of crisis. Moreover, economic and fiscal policies of member states needed to be coordinated to avoid the decisions of national governments to offset each other in times of an area-wide crisis. To complement risk prevention, the euro area should further improve the architecture by introducing instruments that enable risk sharing. In the public sector, a tool for macroeconomic stabilization at European level was suggested. Such an instrument could take the form of a common budget or a common backstop for automatic stabilizers at national level such as, a reinsurance scheme for the national unemployment insurance. Finally, a common fund to insure the availability of sufficient means to assist member states in financial distress.

The proposed measures show that the European Commission was well aware of the fact that countries might need technical assistance, e.g. help in diagnosing the causes for a national crisis as well as formulating and implementing strategies for structural reforms to address the problems and improve their long run growth potential. The Commission suggested to allocate resources to provide such support at European level.

Moreover, not only imbalances in public finances but also those in other areas needed to be monitored and, if necessary, corrected. The current account, the level of private debt or productivity and competitiveness are examples for areas were common rules and surveilance are important to prevent imbalances as a measure of risk prevention. In particular, the problem of home bias in holdings of public debt in the private banking system proved to be dangerous and created the sovereign-bank doom loop.

The need to stabilize their national banking systems demonstrated to be a major liability for member states already in weak fiscal positions when the Great Recession hit the euro area. The accumulation of high levels of private debt in the decade before led to substantial problems with non-performing loans in many member states. To gradually reduce this burden was identified as a crucial task to restore the stability of the private banking system in these countries.

To permanently resolve this problem, rules for risk prevention in the financial sector of the euro area were called for. Establishing a common oversight and rules respectively was suggested to facilitate this process. The entirety of such common rules and the legal basis for the transfer of responsibility of supervision of the financial sector to the European level is nowadays referred to as the Single Rulebook.

The European Commission (2012)'s "A blueprint for a deep and genuine economic and monetary union" summarized the ideas of the Commission in that regard. For risk prevention and risk sharing in the private sphere, the European Commission suggested a Banking Union. Futhermore, thriving towards a fully integrated financial market. A European financial market would be more profound and provide more liquidity as the sum of the national financial markets. In particular, it would resolve the problem of European companies facing different conditions for credit, depending on their geographical location.

The Banking Union would provide a level playing field as private banks could not count on home bias from their national supervisory body as it would then be allocated at European Level. In addition to such a single set of rules to prevent the build-up of risks, elements of risk sharing in the private sector were called for. Thus, a common deposit insurance and a European resolution mechanism for failing banks would complete the Banking Union. Moreover, as to reduce the home bias in the banking sector, it was suggested to provide a safe asset for the whole euro area.

There is a common consensus that these steps would benefit the EMU and make it more resilient in times of crisis. Moreover, the idea of a deeper integration of fiscal policy is also supported by renowned economists, amongst them Obstfeld (2013). He describes the original institutional framework of the euro area as defective. He labels it as the trilemma of the common currency that the euro area cannot maintain full financial integration, financial stability and sovereign national fiscal policy at the same time. Only two of these objectives can be achieved simultaneously. The proposals made by the Commission would resolve the trilemma by shifting responsibility for fiscal policy to a European level. As a result, the probability of future debt crisis in the EMU would be substantially reduced. A common institution such as the European Commission would be tasked with monitoring the adherence to rules and intervene, if necessary.

2.3 The euro area reforms before 2014

Under pressure because of the imminent crisis and in order to preserve the common currency, the member states of the euro area were able to initiate a major overhaul of the rules that govern the conduct of national fiscal policies.

In swift succession, the European Semester was implemented on 1 January 2011, in March 2011, the Euro Plus Pact followed, in November 2011, the so-called "two pack" as well as the "six pack", in December 2011. Finally, on 2 March 2012, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union was signed by the euro area member countries. Several member states of the European Union outside the euro area joined the Fiscal Compact.

In a nutshell, while the Euro Group reiterated in several statements since 2010 the wisdom of the European Commission's suggestions, the actual steps taken by member states have not been reflecting respective acceptance. The European Semester is an instrument that enables enhanced surveillance of the euro area member states' fiscal policy. By assessing the suggested national course of action and the estimated future economic fundamentals such as economic growth, the Commission evaluates the soundness of the upcoming budget.

If the budget is not in line with the guidelines of the reformed SGP, the Commission will make suggestions for improvement. As these steps take place in the first half of every year, national governments have the remaining six month to respond to the Commission and align their policy with agreed upon rules and recommendations by the Commission.

The reforms also introduced the Macroeconomic Imbalance Procedure (MIP) which addresses external and internal imbalances, competitiveness as well as social indicators. The current account is one example for the variables under surveillance by the MIP. More precisely, persistent current account deficits are one of the most prominent macroeconomic crisis indicators. To avoid false alarms, the MIP monitors a 3-year average of individual national current accounts and acts as soon as it leaves a band between $+6\%$ and -4% measured in the national GDP.

Depending on whether other observed variables such as private and public debt o GDP ratios exceed desirable ratios and whether the national policy measures planned or already taken are appropriate to resolve the problem, the European Commission might open an Excessive Imbalance Procedure (EIP).

The list of variables monitored in the MIP is long and allows for a comprehensive evaluation of the economic situation in the member states. However, the effectiveness of the instrument depends on the quality of estimates and effective implementation by the Commission. The assessment whether national policies are appropriate to effectively fight macroeconomic imbalances might be controversial in one or the other case. Depending on the accuracy of the predicted rate of economic growth ratios calculated in relation to the future GDP, results could be blurred. In practice, such outcomes are not unusual. Overall, there is a lot of room for political manoeuvre and also the possibility of imprecise predictions of future developments when the European Commission has to decide on whether or not to trigger an EIP. It could even be that the judgment whether such a step is necessary might come too late to prevent an acute crisis.

The Fiscal Compact aimed at further strengthening risk prevention by introducing the idea of the original SGP into national law of member states. The underwriting nations are required to introduce a balanced budget rule into national law and augment it with the 60%-threshold for national debt. As soon as the current level of public liabilities exceeds the threshold-level, it will be obligatory to bring it back towards the maximum level of 60%. These steps were not only intended to strengthen the framework, but also to improve national ownership of adjustments in fiscal policy should they be necessary to adhere to the commonly agreed upon rules. Furthermore, the reforms aimed at improving fiscal and economic policy coordination ex ante and ex post by regular meetings, at least twice a year and consulting national parliaments as well as the European Parliament.

Under the revised framework, the Excessive Deficit Procedure (EDP) will be triggered when the deficit exceeds the thresholds. Here, as a result of the European debt crisis, a strong emphasis was put on the accumulated stock of national debt. Moreover, the automatism of the process was strengthened by reversing the voting rules in the Council. Instead of voting in favor of the EDP, a qualified majority is now required to abandon this course of action.

However, the Commission has to propose an EDF and it does so based on the new and more complicated set of rules and the results of the MIP, which in turn is based of estimates of future developments. Once again, the process allows for discretion and political manoeuvre. The Commission shares the role of judge and prosecutor with the Council, leaving the process vulnerable to discretionary interventions from both sides. Though the reformed framework is more automated when compared to the original architecture of the euro area, there is still room for further improvement. The concrete and implemented measures are almost exclusively focused on risk prevention. They reinforce the original framework without decisively adding desperately needed instruments for risk sharing. Furthermore, the revised euro area architecture and its rules are too complicated to allow for sufficient transparency and democratic accountability.

No substantial progress was made in creating a safe asset for the euro area. Here, it has to be recalled that such a measure requires changes to the European Treaties which have to be decided by member states unanimously. The fact that the implemented changes to the euro area architecture take the form of intergovernmental treaties, not adjustments in the European Treaties, hint how difficult it was even in the midst of an existential crisis to reach decisive progress. More general, any agreement on risk sharing instruments at European level appear to be met with skepticism. The major road block seems to be that all member states have to unanimously agree to respective European law.

Finally, the euro area introduced a permanent instrument to provide financial assistance to member states. At the time Juncker came into office, this was the only palpable step towards the introduction of substantial risk sharing in the euro area.

The first measures to assist member states were either conducted via bilateral agreements such as in the case of Greece in 2010 or by the temporary European Financial Stability Facility. The European Stability Mechanism (ESM) was created on the basis of a bilateral intergovernmental contract on a permanent basis. It came into effect on 8 October 2012 and was endowed with 500 Billion euro to provide financial assistance to its member states. The support of the ESM is conditional on macroeconomic adjustments, so-called programs, that are designed to enable the recipient country to leave the state of imminent crisis as soon as possible.

To provide an example, Spain requested assistance in 2012 to restructure its national banking sector. The credit line provided by the ESM was conditional on structural reforms and measures to restructure the national banking system, respectively. Already in 2013, Spain left the program after successful implementation.

Combined with the commitment of the ECB and its then President Mario Draghi on

26 July 2012, to do *whatever it takes* to preserve the common currency, the European debt crisis was brought to an halt. On 6 September 2012, the ECB introduced Outright Monetary Transactions (OMT) as a new instrument in its toolbox. OMTs allow the ECB to intervene in secondary sovereign debt markets in order to guarantee the smooth transmission of its monetary policy decisions. In effect, the yields on public debt issued by EMU member states returned to rates that fostered trust in sustainability of their public finances.

Reforms of the private sector completed the overhaul of the European architecture. The financial sector had shown to be a major source for the obvious vulnerability of the euro area in the Great Recession. In particular, the sovereign-bank doom loop proved to be a liability. Countries like Ireland that did in no way violate the original SGP, ended up in a situation in which risks emerging from its national banking sector deteriorated their fiscal position to an extend that forced them to seek financial assistance from their peers. Obviously, the idea of the original SGP, i.e. that it would guarantee sufficient fiscal space to respond to any national crisis, failed in this case.

To avoid the build-up of excessive risks, the Commission suggested common rules for the financial sector, the Single rulebook. Based on these the Banking Union was created. As of 2014, it consisted of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM).

The SSM is the transfer of the supervisory role over the most significant financial institutions from national to European level. The ECB took over its role as supervisory body on 4 November 2014. However, the transfer of the supervisory rule to a common institution alone does not break the sovereign-bank doom loop. But, it succeeded to remove the danger of home bias when conducting the supervision. Furthermore, the ECB gained the power to conduct stress tests and to intervene, should institutions under its supervision fail to follow the rules.

But the Single Rulebook does not contain provisions that would provide the ECB with a tool to preemptively enforce the reduction of home bias in the asset holdings of supervised banks. Thus, the feedback loop between banks and sovereigns remains intact.

Once again, the SSM is a set of rules. But even under the best circumstances, it is not equipped to fully remove the key vulnerabilities emanating from the financial sector of the euro area. The Banking Union rests on a second pillar, the SRM. This mechanism was created to remove the burden of bank resolution from the national level and to finance the restructuring of failing banks. It is financed by a common fund, the Single Resolution Fund (SRF), which is capitalized by contributions of the supervised banks. This setup unburdens tax payers. However, it also implies that it will only be fully operational when the required capital is fully deposited. The SRM entered into force on 19 August 2014 but it will take approximately until 2024 to reach the desired level of 1% of the insured deposits or Euro 55 billion, being the planned capital reserve of the fund. Even then, there is no guarantee that the fund will be sufficient to cover the cost of restructuring multiple failing banks all across Europe in case of a severe crisis. The SRF requires a tangible guarantee, e.g. by euro area member states or the ESM, to become completely credible.

The Banking Union, that according to the suggestions of the Commission should contain risk preventing as well as risk sharing elements, was not completed. Neither the SRM nor a common deposit insurance scheme were fully operational when Juncker came into office. As already mentioned, a common safe asset for the euro area that would severe the sovereign-bank doom loop could not be introduced in this wave of reforms. Thus, crucial elements of risk sharing were missing.

Taken together with the steps implemented by the euro area governments, the Commission and the ECB managed to put on hold the European debt crisis. The vulnerabilities of the euro area were mitigated, but not eliminated. The reforms of the euro area architecture already implemented did, once more, almost exclusively focus on mechanisms and rules for risk prevention. Moreover, they were implemented through intergovernmental agreements guided by the intent to translate them into European law. But no respective action followed. Since the ECB stepped in as the lender of last resort for the private and public sector of the EMU, the efforts to complete the agreed upon reforms came nearly to a full stop. Thus, as President Jean-Claude Juncker came into office, reinvigorating the necessary reform process was certainly the most important task of his Commission.

3 The program of the Juncker Commission

On 15 July 2014, the European Parliament confirmed Jean-Claude Juncker as the new President of the European Commission. In fact, Juncker had entered the the race as the *Spitzenkandidat* of the European People's Party which won the election. At the time, his election and that of Martin Schulz, who was the lead candidate of the Progressive Alliance of Socialists and Democrats that came in second, as the President of the European Parliament, was seen being a major step towards improving the democratic legitimacy of the leaders of the European Union. Juncker (2014) emphasized this intention when he introduced himself to the European Parliament before the voting for his confirmation took place. In his speech, he outlined his agenda as head of the incoming Commission. Soon after taking office, at the Informal European Council on 12 February 2015, Juncker presented (Juncker et al. (2015a)) "Preparing for Next Steps on Better Economic Governance in the Euro Area" which reflected not only the European Commission's view but was prepared in close cooperation with the Presidents of the European Council, the Eurogroup and the European Central Bank. Juncker et al. (2015a) drew the attention to asymmetries and several weak spots in the architecture of the euro area. In particular, the lack of coordination in the areas of economic and fiscal policy. The Summit agreed on steering the EMU towards closer coordination of economic policies. Juncker invited the President of the European Parliament to prepare a unified view of the Presidents of the most important European institutions on how to improve the setup of the EMU. The results of these efforts was the *Five Presidents' report*, see Juncker et al. (2015b), which presents a broad vision for the future of Europe.

Juncker (2014), Juncker et al. (2015a) and Juncker et al. (2015b) are the key sources for the political ends Juncker was planning to meet during his term in office as well as for his personal agenda of what the European Union should achieve for European citizens. We focus on the economic aspects of the agenda and those related the euro area, in particular. All proposals made were strongly based on the concepts established by the European Commission (2012) "A blueprint for a deep and genuine economic and monetary union".

As discussed above, as Juncker took office, major steps on the way to a comprehensive new architecture for the euro area were still to come. Important parts of a new euro area architecture were agreed upon on in the wake of the European debt crisis. But not all had been fully adapted, none of it had been translated into European law. The intervention of the ECB with its former President Mario Draghi declaring that the institution would do *"whatever its takes"* to defend the common currency together with the introduction of the OMT program had brought the imminent crisis to a pause.

In 2014, the euro area was leaving the recession and moving towards a slow recovery. However, there were already canaries in the coalmine warning that the lack of fiscal policy coordination had the potential to slow the recovery in the euro area as potential benefits from discretionary fiscal policy could not be fully exploited[2].

The EMU is a unique currency area with respect to the interactions between monetary and fiscal policy when sharing the burden of macroeconomic stabilization over the business cycle. There is no unified fiscal policy response to the aggregate macroeconomic situation in the euro area. As fiscal policy is decided on national level it might be expansive because of national economic conditions irrespective of such actions being appropriate considering the currency union as a whole. Thus, outside observers as well as the Commission feared low inflation and weak economic growth as a result of leaving macroeconomic stabilization for the euro area to monetary policy alone.

After the ECB's measures had eased the immediate pressure to act, a certain reform fatigue had set in. In addition, implementation of further steps already agreed upon towards completing the reform of the euro area had been slowed down.

Juncker warned that such negligence in implementing the necessary reforms will in-

[2]For a discussion of the the effects and spillovers of fiscal policy in the EMU we propose Alcidi et al. (2015).

evitably lead to severe problems in future crisis which would inevitably occur. He recognized that the incipient recovery could present a window of opportunity to complete necessary adjustments but ease the immediate pressure which would add to the reform fatigue.

Regarding the reform of the SGP, Juncker promised to fully adapt and apply the new framework that was already agreed upon and saw this measure being the first stage for further reform. The Commission would be able to follow through with this promise on its own. Juncker emphasized that the steps already taken were intended to provide stability, i.e. risk prevention for the EMU. Consequently, the agenda of the Commission would emphasize reforms that added risk sharing elements to the euro area architecture. This view was supported by the Presidents of the other European institutions in their joint report.

In later stages, the Juncker Commission intended to translate the bilateral treaties of 2011 to 2012 into European law. These steps cannot be taken by the Commission on its own. The unanimous support of all members states is required to adjust European legislation. In particular, this applies to the Fiscal Compact that foresaw its transposition into the European Treaties. This process, once set in motion, would allow to add to the already agreed upon reform measures.

Juncker came back to a macroeconomic stabilization tool which had been earlier proposed by the European Commission (2012). The idea was to establish a mechanism that would allow the Commission to support structural reforms and investment at national level. If a national measure could ensure positive spillovers on the other member countries of the Union, the Commission would encourage it by technical and financial assistance.

Abstracting from the details of such a mechanism, it was clear that it would require funds, either from the budget of the EU or a newly created fiscal capacity of the EMU. Juncker promised to work towards such an instrument of public risk sharing. Again, he would need the support of the member states to follow through with such policies.

It was made very clear in their report, the five presidents had not in mind introducing additional intergovernmental treaties, which they negatively referred to as pacts and packs. Their view was that such an approach had proven futile and ineffective.

Moreover, additional measures to coordinate economic policies on the euro area level were a priority of the Juncker Commission. In theory, this course of action should have had the consent of national governments. They had assured their support to such action on several occasions explicitly during the Euro Summit of 24 October 2014 and the Informal European Council on 12 February 2015. In fact, member governments have been reiterating their commitment thereafter without stepping up implementation at home.

A key message of Juncker in his address to the European Parliament at the time of his confirmation as President was the promise and intent to take measures that would improve the acceptance of European institutions among citizens. Increasing transparency, accountability and democratic legitimacy would be crucial in this endeavor.

The inclusion of the President of the European Parliament in preparing council meetings (Juncker et al. (2015b)) was one step in this direction. His speech and the five Presidents' report clearly show the Commission's intent to use the room for discretion within the newly established framework for political manoeuvre. Irrespective of whether Juncker wished to politicize the work and decisions of the Commission in general, such a course was rather forced on him by the circumstances.

As mentioned before, the revised architecture of the euro area assigned the shared role of judge and prosecutor on Commission and Council when it came to enforcing the rules. The Commission was tasked with evaluating whether countries were meeting their obligations, e.g. follow a sustainable approach to fiscal policy according to the new SGP.

The new rules were more complicated than the old ones as they were based on predicted paths of macroeconomic variables. A country that violated the rules under one set of assumptions about future developments, might not do so under alternative, equally justified, assumptions. Presented to the Council, the heads of state would have the discretion to reject the proposed course of action such as, starting an EDP. At the same time, translating bilateral agreements into European law, respective legislature required the consent of all member states, including those which might be subject to sanctions.

Being perceived as overzealous in enforcing the rules would make it difficult, if not impossible, to achieve unanimity when pursuing adjustments to the Treaties or suggesting further reforms of the European Union.

At the time, the new Commission was required to stand firm when prosecuting failures to adhere to the new SGP in order to strengthen its credibility while cultivating the support of all concerned to complete the additional task of adjusting respective legislation. Juncker obviously realized that these two objectives were only compatible under a rare set of circumstances. This might have led him to remark that changes in the European architecture where often hurried and improvised in response to outside pressure such as the European debt crisis.

The confidence of European citizens' into European institutions was at a low point in 2014. One explanation for this worrisome state of affairs was that member states of the EU often avoid national ownership of measures required by their obligations towards the Union. Whenever the Commission acts to impose sanctions on member states, rejecting their proposed national budget in the course of the European Semester or demands towards national governments in the form of adjustments, to make them congruent with the rules, national governments deny ownership of necessary changes in their policies. Instead, blaming Brussels for not being able to follow through with promises made to their national electorates, deepened the rift between the European institutions and the citizens of the Union. The Juncker Commission at its start was put between a rock and a hard place.

One approach to break this pattern was to make the benefits from membership in the EU more identifiable for European citizens. Attempts in that direction were to name initiatives of the Commission in such a way that made clear to whom their benefits were to be attributed, namely the European Union and not national governments. An example for such a move is the Juncker plan for investment that we discuss later.

Further attempts were to increase transparency and democratic accountability, which was one more necessary step to move the common institutions closer to the citizens. Another area in which the Commission's exposure could be increased was to improve the existing structure for carrying out financial assistance to euro area members in need. In the past, conditions for financial support were negotiated between the country in question, the ECB, the IMF and the Commission, the so-called Troika. As these programs implied very often drastic measures interfering with the day-to-day live of European citizens, democratic legitimacy could all but improve their acceptance.

To further add to transparency and to enable a informed discussion of the proceedings, the Five Presidents' report suggested the establishment of an advisory European Fiscal Board. Such an institution, consisting of scientists and practitioners, would provide detailed information to the European public.

To this end, it was called for any measure that would vitalize the slow recovery already under way. No doubt, strong economic growth would ease the implementation of needed reforms and help to legitimize the EU as a whole. Juncker et al. (2015a) suggest to follow the *virtuous triangle* of (i) structural reforms, (ii) promoting private and public investment as well as following a path of (iii) sustainable fiscal policy. Juncker placed a particular emphasis on strengthening the Single Market and to implement the Capital Markets Union.

The Capital Market's Union refers to the creation of a level playing field and unified supervision of Europe's fragmented national financial markets, further extending the provisions of the Single Rulebook. By design, barriers between national financial markets would drop and subsequently enable a euro area wide financial market providing the currency area with a channel for private risk sharing and equal access to credit and other sources of debt financing to Europe's private sector.

The Banking Union, as part of the Financial Union, would be completed and provide the still missing risk sharing elements. The Single Resolution Mechanism for failing banks would be improved and a European Deposit Insurance scheme put into place. The Single Resolution Mechanism was set up by 1 November 2014 but was not yet fully operational and lacked a common backstop to finance the restructuring of failing banks. All suggestions of the Commission were focused on risk sharing in the public and private sector and with that to break the sovereign-bank doom loop.

The Commission intended to achieve this by the creation of a safe asset for the whole euro area that would complement, not substitute, the national safe assets provided by the member states. In this, the Commission had the support of all European institutions that contributed to the reports.

Finally, Jean-Claude Juncker frequently emphasized the problem of low public and private investment throughout the EU. European countries were forced to consolidate their budgets in response to the European debt crisis. Austerity measures were taken to comply with the rules of the SGP. In other cases, public spending cuts were forced on countries that had lost access to financial markets as a result of the crisis and were part of a program. The private sector suffered from heterogeneous credit conditions because of the lack of a euro area wide financial market.

The Juncker Commission was guided by alleviating the potential damage prolonged crisis and low investment could do to the long run growth potential of the European Union, i.e. avoid hysteresis. A throughout discussion of the topic can be found in Alcidi et al. (2015). In his introductory speech to the European Parliament, Juncker had already emphasized his intent to promote the recovery of the EU and to foster the long run growth perspective of all member states by mobilizing up to Euro 300 Billion through a European investment package.

Overall, the agenda of the Juncker Commission and the Five Presidents' report mirror the discussion of good governance above, regarding a balance between risk prevention and risk sharing in the public and private sector. We conclude that the program of the Juncker Commission was sound and, in theory, suited to the economic and financial situation in the member states.

4 The Juncker Commission's term of office

The European Commission (2019a) provides an overview on the proposals of the Juncker Commission. They report 535 legislative proposals of which roughly two thirds were adopted into legislation. While that seems impressive, of course not all of the proposals were related to Europe's Economic and Monetary Union. Moreover, a legislative proposal might complement, simplify or add interpretation to existing elements of the euro area. Such proposals would not have moved President Junckers' agenda of introducing the much needed risk sharing mechanisms that could not be put through in the waves of reforms between 2010 and 2012.

When laying out his plans for the future of Europe, Juncker typically used stages to illustrate the process. The *Five Presidents' report* as well as the later *Reflection Paper on the Deepening of the Economic and Monetary Union* (European Commission (2017b)) are examples for such a practice.

In three consecutive stages, the first would summarize measures already under way, such that seemed uncontroversial at the time or were fully within the competence of the Commission. The second stage, scheduled for the more remote future after the completion of the initial stage typically included the heavy lifting, i.e. measures that were controversial or for which the Commission would need the unanimous support of the member states. Examples for these more ambitious goals were the set up of macroeconomic stabilization tools for the euro area or adjustments to the European Treaties. The implicit strategy was to complete the first two stages and then proceed to further deepening European integration. A third stage was rather ambiguous and its precise contends left for future specification.

Based on this strategy, the Juncker Commission had a good start. Arguably the most tangible achievement of the early months was the Investment Plan for Europe, commonly known as the *Juncker Plan*, see European Commission (2014). Public and private investment in Europe was low as a result of the Great Recession followed by the European Debt Crisis. This was a major concern as it increased the fear of hysteresis effects. Moreover, it fueled worries that Europe would fall behind competing regions in Asia and North America in the areas of research, education and the quality of its infrastructure. Austerity measures in response to the crisis dampened aggregate demand across the euro area which altogether fed fear of a low growth-low inflation scenario in the near future.

The Juncker Plan aimed at revitalizing private investment and became a priority for the Commission in 2015. The risk of a potential investment project as well as the difference between the costs of financing it and the expected return on investment are the crucial variables in the decision making of investors. The idea of the Juncker Plan was to encourage private investment by providing guarantees to investors, i.e. reducing their exposition to risk. In addition, it set up a platform for information about potential investments projects. By providing respective information and technical assistance, the Juncker plan made it easier to find promising investment opportunities in Europe and therefore increased the chances that planned investment projects would be carried out. Last but not least, the plan aimed at enabling additional private investment by simplifying the regulatory framework in Europe.

The Juncker Plan proved to be a tremendous success. As of October 2019, the official website reported investments totaling Euro 439.4 bn related to its approvals. While there is no doubt about the positive impact on investment, as this is confirmed by independent evaluations such as EY (2016) and the European Court of Auditors (2019), the estimated totals vary. As put by European Court of Auditors (2019), the problem of estimating the exact impact of the plan is difficult because there is no way to know which of the investment projects related to the Juncker Plan would have been implemented anyway and which would have not found sufficient finance without it.

The Commission made considerable efforts to use the European Fund for Strategic Investment to increase its public visibility. The Commission provided easily accessible information to the general public on a dedicated website. Juncker himself and the Commission used the term "Juncker Plan" frequently when communicating to the public and even did so in his farewell address, Juncker (2019).

No doubt, the new euro area architecture put in place was complex. There were no precedents of what to expect from their application in practice. Moreover, recommendations to national governments in the course of the European Semester already published went into great detail. Thus, it was not only difficult to translate them into actual policies but also to monitor whether national governments were following them. The situation was further complicated by the fact that as a result of the euro crisis, Greece, Cyprus, Ireland, Portugal and Spain were part of economic adjustment programs agreed with the Troika. Financial assistance to these countries was conditional on detailed agreements made on specific policy areas such as, reforms of labor markets and pension systems further distorted the picture.

The Commission decided to improve the situation by providing "Making the best use of the flexibility within the existing rules of the Stability and Growth Pact" (European Commission (2015b)) which aimed at clarifying the application of the new framework. The communication made it clear that the Juncker Commission fully intended to use its room for discretion when implementing the new architecture of the euro area in close cooperation with the Council with whom it shared the responsibility. At the same time, it set out its interpretation in a clear and unambiguous way to make its decision-making more transparent for the general public. Future recommendations by the Commission would abstain from attempts to micro-manage national policies and be laid out in simple terms. This would facilitate the monitoring of their implementation and thus improve accountability.

One example for a policy area with considerable uncertainty was how the Commission would treat public investment. Public investment was cut severely by all member states in an attempt to contain the European debt crisis. But it was not entirely clear how debt financed public investment would be treated by the Commission when estimating annual deficits of member states. The European Commission (2012) had emphasized that there would be no "golden rule" allowing governments to subtract public investment from their annual deficit. At the same time, the Commission in numerous statements and publications called for more public investment. The European Commission (2015b) resolved the contradiction by elaborating how to discount the national deficit in case it was caused by annual hikes in public investment.

The approach follows common sense and mirrors calls to give leeway on fiscal deficits caused by public investment. These were not new but also common under the original SGP. Blanchard and Giavazzi (2004) is an early and forceful example for such criticism.

Efstathiou and Wolff (2018) evaluate the impact of the revamp of the SGP by comparing the degree to which national governments implement the country specific recommendations of the Commission and find that the implementation level is generally low. But low implementation has been a common feature before the Juncker Commission took office which makes it difficult to attribute this observation to any single cause. Moreover, they confirm that the Juncker Commission politicized the whole process, e.g. they find that European countries are not treated equally.

In some cases, statements made by Jean-Claude Juncker that emphasized the use of discretion by his Commission might have been ham-handed. As a result, governments felt encouraged to count on the leniency of the Commission when it came to enforcement of the new rules.

On 31 May 2016, Juncker stated that a French budget that, under the most optimistic assumptions, barely had a chance to stay within the permissible range for the deficit, would not lead to a EDP *"because it is France"*. Meaning that France is crucial as major economy and because its political clout is needed to move the European integration forward.

Such statements may have encouraged the former Italian coalition government of the Northern League and the Five Star Movement formed in 2018. They pounced on the opportunity to claim the same importance for themselves and tried to demand the right to violate the rules until they were replaced by a pro-European government in 2019.

However, the term of President Juncker was characterized by the slow but steady return of economic growth. All relevant macroeconomic indicators improved making it easier to adhere to the rules of the new SGP. A clear indicator is that as the Commission came into office in 2014 eleven member states were subject to EDPs as opposed to one in 2019.

The *Five Presidents' report* introduced the idea of National Productivity Boards to promote national ownership of policies related to boost productivity such as structural reform. The Council recommended the establishment of these Boards on 20 September 2016. At face value this is a clear win for the Juncker Commission. However, the latest progress report from the European Commission (2019b) reveals that many member states still need to act on the recommendation. In particular, important member countries such as Germany, Italy and Spain are lagging behind when it comes to implementation. Thus, it will take well beyond the Juncker Commission for this reform to come to full fruition.

At the same time, the Commission successfully set into motion its plans for the *European Fiscal Board* in its decision on 1 October 2015, see European Commission (2015a). The European Fiscal Board since then has contributed to the public discussion on fiscal policy in the Europe. Its positions were outlined in annual reports, assessments of the fiscal framework in general and scientific workshops that provided a platform for discussion. While all its activities and publications are available to the general public, it is hard to assess the impact of the European Fiscal Board on the ground in member states. Notwithstanding, the institution provides valuable information to European citizens and governments. It may need a few more years to become more generally known.

The introduction and expansion of effective instruments for public risk sharing in the euro area was the key priority of President Juncker. The ESM was already in place but setup as an intergovernmental treaty outside European legislation. Juncker et al. (2015b,a) suggested to incorporate the ESM in the European Treaties and to establish it as a European Monetary Fund. The proposal could not generate sufficient support.

The initiative to establish a common budget as a macroeconomic stabilization tool for the euro area also failed to gain much traction. Though, the matter remained part of public discussion. The difficulties arose due to the fact that member states had very different ideas of the appropriate volume, on what to spend the money and whether there should be a common budget or a macroeconomic stabilization tool at all. Obviously, no agreement could be reached as the member states were still in the process of finding a unified view on the matter in the first half of Juncker's term.

An uncontroversial and fast success should have been the transposition of the Euro Plus Pact, the "two pack" as well as the "six pack" and the Fiscal Compact into the European Treaties, as planned. Here again, this initiative lacked sufficient support of the member states and did not gain any traction.

Moreover, in the aftermath of the Brexit vote in the United Kingdom on 23 June 2016, any initiative to adjust the European Treaties was put on hold until the negotiations on the future status of the leaving member state would be concluded. The Brexit negotiations absorbed substantial resources that the Commission could not devote to other, arguably more important, tasks.

To recall, the Juncker Commission referred to its concept for the financial sector as the Financial Union consisting of a Banking Union and a Capital Markets Union. The overhaul of the euro area framework had introduced the Single Rulebook as base for the Banking Union. However, only the elements that were intended to prevent the build up of risks from the financial sector such as, common supervision by the ECB, were put in place. Risk sharing elements such as, the Single Resolution Mechanism (SRM) lacked either crucial elements, i.e. the Single Resolution Fund (SRF) not fully financed, or not finally agreed upon such as, the European Deposit Insurance Scheme (EDIS).

The Juncker Commission aimed at breaking the standstill at implementation. This endeavor included the organization of bridging finance until the SRF would become fully stocked by the contributions from the participating private financial institutes. Moreover, as there was no guarantee that even a fully stocked SRF would be sufficient to resolve a severe banking crisis in the euro area. A backstop was needed. It could be either provided by government guarantees or by assigning the task to the ESM.

The EDIS is a crucial element to provide risk sharing for the private sector. Again, unanimous support by member states was required. Unfortunately, diverging opinions prevented any progress. Common arguments against such an insurance scheme were anticipated problems in the form of adverse selection and moral hazard. Adverse selection is the problem that those who face greater risk of the insured event are more likely to join any insurance scheme. In case of the EDIS this can be solved by making the participation mandatory for member states of the euro area.

Moral hazard is the problem that being insured may lead to more risky behavior as one does not have to cover the full costs of failure. In the context of the EDIS, it is a fact that banks which have huge inventories of non-performing loans pose higher risks. If a common insurance scheme would become a reality, such banks might have little incentive to reduce these inventories. Even worse, they might run higher risks because their shareholders enjoy the profits while their liability does not exceed their investment in shares. Thus, the idea of the EDIS was met with skepticism. Some member states such as Germany feared that non performing loans in the banking systems of other member states would cause incalculable costs for their national tax payers. Thus, Gemany and others made reducing the accumulated stocks of non performing loans a precondition for negotiating the details of any EIDS. The European Commission (2015c) put forward a proposal for European Deposit Insurance Scheme but no agreement could be reached.

In any case, none of the suggestions for the Financial Union, made in the first half of Junckers' term, provided a solution for the sovereign-bank doom loop as they did not address the home bias in the banking sectors' asset holdings. The simple solution, the introduction of a European safe asset, had so little support that any initiative in this direction looked like a non-starter.

The creation of a fully functional European capital market adds a channel for risk sharing in the private sector. It would allow European businesses to finance investments outside their national banking system. As a result, the dependence of debt financing on the geographical location of the debtor is diminished. No meaningful progress could be achieved in the first half of the Juncker Commission's term. Sapir et al. (2018) provide a recent discussion of the state of play and find that despite the Commission's best efforts no major breakthrough could be achieved.

Certainly, President Juncker had hoped that accomplishing items on his agenda that were uncontroversial would build momentum and allow him to also move forward more controversial concepts. Implementing the Treaty changes, envisioned as the new euro area architecture was put in place from 2010 to 2012, should have been uncontroversial. However, these changes needed to be augmented with meaningful mechanisms for risk sharing in the public and private sector. The lack of workable agreements among the member states made it all but impossible to move forward. As the Commission depends

on the unanimous support of the member states in that regard, it could try to convince them and keep the discussion moving but not force any progress.
None of the proposals to add risk sharing elements to the euro area architecture gained any traction until 2017. Claeys (2017) provides a throughout analysis of the state of play. At the time, the only meaningful risk sharing mechanism of the euro area was the jury rigged arrangement based on the ESM supporting member states in distress working together with the ECB, acting as the lender of last resort conditional on the support of the ESM.
But time worked in favor of the Commission. Europe was steadily recovering from the euro crisis. As all economic indicators looked brighter, the public support for European institutions improved. Moreover, the Brexit decision of 2016 which had lead to political and economic turmoil in the United Kingdom shifted the perception towards Europe. Investment in the UK decreased dramatically, the Pound slumped and the way the British government handled the negotiations with the European Union contributed even more to improve the citizens' support for European integration. In 2017, the support for the euro even hit a record high, see European Commission (2017b) for detailed data.
With his State of the Union address on 13 September 2017, then President Juncker tried to seize the opportunity to break the deadlock. Apart from a more favorable public sentiment, other factors improved his chances for success. Since 14 May 2017 Emmanuel Macron has been the President of France. During his presidential campaign, he showed being a staunch supporter of European integration. In his Sorbonne speech on 26 September 2017, President Macron doubled down on his efforts. In fact, his suggestions mirrored the original reform agenda of President Juncker in large parts. Macron emphasized the need for risk sharing mechanisms and to intensify cooperation in areas such as tax policy. Moreover, he suggested to introduce majority voting instead of unanimity in certain policy areas which would mitigate the risk of extended stalemates. Furthermore, he wanted to limit the ability of member states to trade consent in one policy area for concessions in others. To accomplish these goals, President Macron - being aware that France cannot move alone - called for the support of the German gov-

ernment for a joint effort to complete the architecture of the Economic and Monetary Union.

The European Commission (2017b,c) put forward its agenda once more but still no immediate progress could be achieved. It is evident that economic recovery does no go on forever. Should Europe fail to complete the euro area architecture before another downturn hits the euro area, once again it would have to rely on improvisation and quick fixes. It goes without saying that preventing a disaster is preferable to dealing with the results from just waiting for it to happen. In January 2018, a group of fourteen French and German economists called out the failure to complete the euro area reforms. Benassy-Quere et al. (2018) diagnosed the stalemate as a result of competing views: One group of member states favored firm rules enforced by market pressures and strict supervision. Other member states were less trusting in financial markets to enforce fiscal discipline and adjustment of policies to maintain competitiveness of the national economies.

Both sides pointed at recent evidence. In response to the euro crisis, member states had abandoned the rules set in the original SGP as contagion and negative spillovers made following the rules-based framework costly. The financial assistance provided to failing member states, established a precedent for ex-post risk sharing. In that view, adjusting existing rules to reality was just common sense.

Opponents of this view emphasized that deviating from the rules of the original SGP had fueled a rise of populism and political divide in and across member states. Obviously, setting up a set of rules and promising time and again that those were set in stone, in national election campaigns had contributed to political division as the repeated promises were broken. From that point of view, making the rules tougher and hold on to them, but this time for real, was seen as a feasible solution by some member states. However, this point of view ignores that the existing precedent would make it challenging to make such a course of action credible. That is, whether such credibility could be restored at all.

Benassy-Quere et al. (2018) argued that the stalemate itself was now causing division across Europe. Not being able to solve the most urgent problems of the Union did not foster citizens' confidence in national and European institutions. They suggested a solution that can be characterized as the common denominator of the competing views. Fiscal discipline should be enforced by a no bailout rule but complemented by measures to minimize contagion. After a country that suffered a public debt crisis had made credible efforts to restructure its debt, it would receive assistance by the ESM. The system would work like an insurance scheme with a deterrent fee.

A similar approach was suggested for a macroeconomic stabilization tool that would act as reinsurance for national automatic stabilizers such as, the unemployment insurance. For the private sector, Benassy-Quere et al. (2018) argued in favor of a backstop for the SRF, a common deposit insurance for the euro area, a European safe asset to break the sovereign-bank doom loop and a fully integrated European financial market. But they did not argue in favor of a common budget.

In 2018, the Juncker Commission once again went on the offensive and made a number of proposals. Amongst them was a new initiative to push forward the Capital Markets Union, see European Commission (2018). The creation of a European Monetary Fund was proposed once more as well as that of a European Investment Stabilization Function which would provide macroeconomic stabilization and a common budget for the euro area.

Altogether, the Commission reiterated European Commission (2012), the *Five Presidents' report* as well as the more recent *White Paper on the Future of Europe* (European Commission (2017c)). President Macron had suggested to establish a substantial budget for the euro area, about three times the amount of the European Union's budget which would provide meaningful risk sharing in the public sector. The Commission took up on that by the renewed proposition of a European minister of economy and finance (European Commission (2017a)) and a unified external representation of the euro area. France and Germany came to an agreement on the Frech proposals in their Meseberg declaration of June 2018. Both countries now supported a euro area budget, the ESM to act as a backstop for the SRF and macroeconomic stabilization tools for the euro area. As already emphasized, decisions on that level of gravity require unanimous approval of the member states within the Council. Thus, to break the deadlock support has to go beyond that of the two most important member states. Thus, it is not surprising that the Eurosummit in December 2018 could not reach a complete breakthrough. The only major success of the summit was the introduction of the ESM as the backstop for the SRF. The other proposals were watered down considerably or abandoned altogether.

The Budgetary Instrument for Convergence and Competitiveness, i.e. the budget for the euro area, will be introduced with the EU budgetary package for 2021-2027. But its expected meager Euro 25 billion fall far short of the French suggestions of being three times the EU budget. In fact, the budget of the euro area will be part of the existing budget of the European Union. Moreover, the new euro area budget will be explicitly excluded from any spending related to macroeconomic stabilization and restricted to the promotion of convergence and competitiveness. It will not have any noticeable impact on the aggregate fiscal stance of the euro area.

As a result, the ECB alone will have to carry the burden of macroeconomic stabilization for the foreseeable future. This decision of the Council is surprising. In 2017, it had become painfully obvious that the euro area is in serious danger of a prolonged period of low inflation rates accompanied by anemic economic growth.

As the ECB is the only institution of the euro area that engages in macroeconomic stabilization, it is in serious danger of having to maintain interest rates close to the zero lower bound in order to stimulate aggregate demand in hopes of moving the inflation rate closer to the proclaimed 2%-target. If successful, the ECB will be in a position to normalize the interest rates and regain room to manoeuvre. There is a common agreement in scientific literature that fiscal policy complementing the efforts of the ECB would be beneficial and contribute to the long term macroeconomic stability of the euro area.

As there continues to be no unified fiscal policy, to achieve this, the member states will have to coordinate their spending decisions should they wish to support the ECB by stimulating aggregate demand and the inflation rate. Supporting the ECB in the current situation requires expansive fiscal policy on the aggregate level. In particular, countries with room for additional spending have to increase their spending, e.g. public investment, to achieve this aim. A discussion of the problem can be found in Alcidi et al. (2015) and Pekanov (2018). While the European Commission (2016) was well aware of the problem, once again, the Council failed to reach unanimity to address it.

Moreover, since the Eurosummit of December 2018, the introduction of a safe asset for the euro area is no longer part of the discussions in the Council. But the latest detailed proposal by Corsetti et al. (2019) deserves consideration by Commission and Council alike. No agreement could be reached on any alternative tool for macroeconomic stabilization.

Now, the discussion is evolving around either replacing national unemployment insurance systems by a common European insurance or installing a European reinsurance scheme to cover unemployment insurances at national level. Here again, incentives for national governments implied by either system will be crucial to generate acceptance. A European unemployment insurance scheme will organize payments between citizens who either contribute or receive payments, a reinsurance system would be organized as intergovernmental transfer. The latter system raises fears of moral hazard by the participating governments while the former might be difficult to organize because of diverging incomes and standards of living across the euro area, see Kletzer and von Hagen (2000) for a throughout discussion.

We conclude that, with few exceptions, the Juncker Commission failed to reach major breakthroughs with regard to the euro area reform. Instead, reforms moved at glacial speed as then President Juncker struggled to convince the Council of more ambitious steps. But, he successfully kept the reform process going and the urgency of the topic on the agenda of European politics.

5 Concluding remarks

In his introduction as Candidate for President of the European Commission (Juncker (2014)), Jean-Claude Juncker, had compared the required reform process forced by the euro crisis to the *"repair (of) a burning plane whilst flying"*. In other statements, he described the euro area architecture rather being the result of decisions under external pressure instead of a well prepared strategy or unified vision.

The Juncker Commission came into office with sound and reasonable proposals to complete and make the architecture of Europe's Economic and Monetary Union more resilient. Although is has to be stated that some of these proposals such as, introducing the improvised reforms triggered by the euro crisis into the European Treaties were agreed upon before Jean-Claude Juncker became President of the Commission.

Moreover, much of the agenda of then President Juncker reflects suggestions made by renowned experts and scientists and can be seen as largely uncontroversial. A prominent voice is that of Obstfeld (2013). He argued that long term macroeconomic stability cannot be achieved with full financial integration and financial stability, if there is no meaningful common budget introduced alongside. Or in other words, a regime of fiscal rules cannot serve as a substitute for a substantial budget on the euro area level, if the European Economic and Monetary Union features a full fledged Financial Union. As we discussed above, this view was shared by the *Five President's Report* and the predecessor Commissions. The creation of a common budget, together with a safe asset for the euro area and a common deposit insurance scheme were necessary steps to satisfy these conditions.

Then President Juncker failed to achieve these goals because the Commission depends on the unanimous support of the Council. As a seasoned veteran of European politics, Juncker knew this, his references to the reforms under duress typically in response to an imminent crisis proved all to accurate. The member states of the European Economic and Monetary Union failed to find agreement especially in an environment that relaxed the pressures on their economies as Europe returned to a path of economic growth.

At its core, the problem is the well known fact that short term interests of member states governments are all too often preventing European institutions from pursuing strategies that would improve the chances for long term stability.

The quick disposal of the original SGP's no bailout rule in response to the euro crisis as summarized by Ardagna and Caselli (2012) illustrates the very problem. As the Commission's hands are tied without the support of the Council, the Juncker Commission could only keep the issue on the agenda and hope to convince the member states over time.

However, in the tumultuous environment caused by the Brexit vote and the election of Donald Trump as President of the United States of America, then President Juncker managed not only to push the reform agenda time and time again but he was able to move several items from his agenda forward. Maybe it was realistic to assume, on his part, that in order to achieve a major breakthrough, any Commission needs external pressure.

However, there are signs that the seeds planted by the Juncker Commission will come to fruition in the near future. The German minister of finance, Olaf Scholz, seems sympathetic to the idea of a EDIS. Moreover, it is not unlikely that Donald Trump will remain President of the United states for a second term, which is also likely to keep external economic pressure on Europe. In addition, the resources tied up by Brexit are likely to be at least partially freed when the United Kingdom has finally left the European Union. After that, negotiations between the EU and the UK will have to focus on a bilateral free trade agreement, an area in which European institutions have a lot of routine. Moreover, the introduction of the euro area budget does provide a common platform that can be easily expanded, should member states decide to do so.

Two crucial weak spots of the euro area remain. Firstly, the sovereign-bank doom loop is still intact and secondly, there is no common macroeconomic stabilization tool to complement the unified monetary policy of the ECB. However, the growing interest in a common unemployment insurance scheme is promising. Moreover, the simple and straightforward solution to the looming sovereign-bank doom loop, a safe asset for the euro area, is still an option. The new Commission of President Ursula von der Leyen will have to continue pushing crucial reforms to make the European Economic and Monetary Union shock-proof. In pursuing that goal it will have the opportunity to build on the groundwork provided by its predecessor.

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