THE REFORM OF THE EMU GOVERNANCE.
WHERE DO WE STAND? *

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ABSTRACT: *The foundations of the outpost of the European Union, its Economic and Monetary Union (EMU), have seriously been shaken by the first stress test of its (short) history, the global economic and financial crisis exploded in 2008. There is now general agreement that reforms of the institutional architecture of the EMU are necessary, aimed at fostering further integration on the grounds of economic policy and governance. Behind this general agreement, however, there are sharp divergences of views and agendas. The aim of this paper is to provide the reader with a broad overview of the "state of the art" in the debate about the EMU reform, presenting the main alternative views, the major issues at stake, and the prospects of reform. At the turn of the year there was a spell of optimism that 2018 would have been the year of the reform of the EMU. Alas, optimism is fading away.*

1. The foundations of the outpost of the European Union, its Economic and Monetary Union (EMU), have seriously been shaken by the first stress test of its (short) history, the global economic and financial crisis exploded in 2008. A storm that Europe initially contemplated from a distance as an American affair, but

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which soon rained down on our continent with greater force and for longer time. There is now general agreement among scholars, authorities, and even political leaders, that the dramatic "Europeanisation" of the global crisis was exacerbated and prolonged by flaws inherent in the architecture of the EMU (e.g. Baldwin and Giavazzi (eds.) 2015, 2016; Delatte et al. 2017; CEPR 2018).1

The most compelling problems brought to the forefront by the crisis are two. The first is the "original sin" that no one is in charge for the EMU as a whole at the supranational level with the exception, by statute, of the ECB.2 The second is that the governance mechanisms in place have proved unable to coordinate national policies in order to overcome social and economic costs due to mutual negative externalities. In his fine book *Saving Europe*, Carlo Bastasin (2015a) calls the European crisis the "First interdependence war". In a subsequent paper, he writes:

"I am not using the word war lightly. [...] The size of the economic crisis, the loss of production measured against the trend, is in the ballpark of a war. It actually amounts to a higher economic cost than all the wars fought by the United States after 9/11, Iraq, and Afghanistan included [...] Throughout the crisis, national governments have acted as if their states were or had to become self-sufficient, live within their own means, and stand on their own two feet. [This goal] became the cornerstone of crisis management and of the European system of economic governance that later emerged" (Bastasin 2015b, pp. 5-6)

Therefore, reforms are deemed necessary, ideally aimed at fostering *further integration* on the grounds of (at least) economic policy and governance. This claim has been endorsed by the top European institutions, with the Commission taking the lead of the reform agenda.3

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[1]Data about the comparative worse performance of the EMU members in comparison to other European countries are presented by Tamborini (2015).

[2] In the vas literature on the origins and development of the EMU as a supranational architecture see e.g. Eichengreen and Wyplosz (1998), Mongelli (2010), Spolaore (2015).

[3]As testified by the so-called "Five Presidents Report" (Juncker et al. 2015), the *White Paper about the future of the EU* (2016) and the *Reflection Paper on the Deepening of the Economic and Monetary Union* (2017a), and the subsequent *Roadmap for Deepening the Economic and Monetary Union* (2017b). Relevant speeches of the President of the European Central Bank should also be mentioned (e.g. Draghi 2014a, 2014b, 2015).

The aim of this paper is to provide the reader with a broad overview of the "state of the art" in the debate about the EMU reform, presenting the main alternative views, the major issues at stake, and the prospects of reform. At the turn of the year there was a spell of optimism that 2018 would have been the year of the reform of the EMU. Alas, optimism is fading away.

2. European institutional reforms are eminently a matter of political decisions. Yet they are not just ready for head of governments' signature. The debate has been growing for years. An entire library can be filled with accurate and detailed proposals elaborated by authoritative scholars, think thanks, policy advisors, EU officials. The l*eit motiv* is the plea for further (and faster) integration epitomised by three pillars to be erected in support of the Monetary Union: Banking Union, Fiscal Union, and Political Union.

The Banking Union is under way with two main achievements: the single supervision on major banks, and the single resolution mechanism for bank crises. Negotiations are instead at a stalemate on a third key element, the common deposit insurance (Baldwin and Giavazzi 2016, Part Two). The Fiscal Union, i.e. authorities and rules of fiscal policy in the EMU, is a political enigma, but the general feeling is that "something has to be done" so that most likely it will become the core of negotiations (and controversies). The Political Union remains the ideal end, but it is miles away from the stage of a political agenda.

Let me then concentrate on the Fiscal Union. The reform strategies on the ground are generally represented by two alternative models: the *Maastricht 2.0* and the *U.S.* model – that I would rather call the Confederal model (see also Delatte et al. 2017). Let us examine them in turn.

2.1. In this view, the European crisis originates from the *political* failure of the fiscal regulation system that governments undersigned with the Maastricht Treaty and subsequent modifications up to the Fiscal Compact of 2012. (Schuknecht et al. 2011, Eyraud et al. 2017). It was not the compliance with, but the violation of, these rules that generated the European crisis, whereas these rules remain a fundamental pillar of a sound EMU. The typical symptoms are seen in the persistence of the deficit bias in fiscal policy, public debt growth, transmission of public finance distress.

The culprit is the “politicisation” of the rules, which means that the Commission has deviated from its mandate of impartial and rigorous guardian of the rules to become the interpreter of the rules in the negotiations with governments. Consequently, when the followers of this view talk about “more Europe” they mean further devolution of sovereignty towards supranational agencies essentially "technocratic" in nature with clear mandate and power to enforce the rules *vis-à-vis* the governments (e.g. the European Fiscal Board and national fiscal boards: Asatryan et al. 2017). Two are the keystones of this view.

The first is the reaffirmation of the doctrine of *exclusive national responsibility* in all economic matters, except monetary policy, on which the Treaties ruling the EMU rest. In a context where monetary policy is committed to maintaining price stability, each member country retains full sovereignty, being only required to comply with the fiscal rules established by the Treaties, and with the policy recommendations put forward by the European Commission. On the other hand, non-monetary sovereignty is limited by a set of rules that are necessary to ensure fiscal discipline and "monetary dominance" (i.e. full independence of the European Central Bank *vis-à-vis* governments), knowing that a monetary union creates incentives to violate the principles of fiscal discipline, no bail-out of insolvent governments, and non-monetization of public debt.

In parallel, a peculiar interpretation and implementation of the national responsibility doctrine has materialised according to which the room for manoeuvre and choice of sovereign governments remains such that the performance of each country, whether good or bad, is mostly seen as its own responsibility. In the end, there is no such a thing as "the EMU", which is only the statistical average of what the individual countries are doing. If the EMU as a whole performs poorly, it is only because too large a number of members fail to manage their economy successfully and to follow rules and prescriptions faithfully. Consequently, the blame for failures, and the need for reforms, is mostly placed at the level of individual countries, whereas the general institutional set-up is kept out of discussion.

The second keystone of the Maastrich 2.0 roadmap is the request that the Treaty on Stability, Convergence and Coordination in the Economic and Monetary Union of 2012 (the so-called "Fiscal Compact"), after being embodied in the legislations of member countries, is elevated from the status of an international treaty to the rank of EU legislation.

So far, this reform strategy finds significant political support in Germany (see Schauble (2017), though not officially by the government, and in the North-Eastern belt (e.g. the document undersigned by the Finance ministers from Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands and Sweden).

2.2. On this alternative reform model convergence different strands of critical thinking of the EMU architecture and its "original sins". From the economic side, a number of flaws are present in the original regulatory framework that have become critical in the mismanagement of the crisis: (i) neglect of interdependencies across countries, (ii) insufficient coordination of national fiscal policies, and in the aggregate with the common monetary policy, (iii) lack of common instruments of macro-stabilisation, (iv) enforcement of austerity too large, too early, uncoordinated. The fiscal rules apparatus was designed to control for the negative externalities of fiscal profligacy but not for those of fiscal austerity, which accounts for the deeper and longer recession in the EMU than elsewhere[4]. A related allegation is that the rules failed as substitute for explicit policy coordination[5].

From the political and institutional side, the EMU as a supranational institution lacks "incentive compatibility" with the legitimate role of democratic govern-

[4]About the vast debate on austerity see Corsetti (ed.) 2012, Buti and Carnot (2013), Tamborini (2015).

[5]The single exception may be seen in the "European Semester", introduced within the 2011-12 anti-crisis reform package, with the explicit aim of "coordinating" national fiscal policies, which however belongs more to the category of moral suasion than to full-fledged institutional mechanisms.

ments as representatives of social preferences over policies and their outcomes (Andreozzi and Tamborini 2017). A sharp conflict has emerged between the “community method” (law and decision making are reserved matter of the community bodies) and the “intergovernmental method” (the law of the strongest? Bastasin 2015a, Fabbrini 2015). Tightening the existing regulatory system has already been experimented (the so-called Two Pack, Six Pack, Fiscal Compact, etc.) with poor results on crisis management and further deterioration of the "input" and "output" legitimacy of the EMU policymaking process (Scharpf 2015, Schmidt 2015).

In this view, reforms point to the opposite direction of Maastricht 2.0. The confederal inspiration should be understood in a broad sense, meaning that the aim is the creation of bits of genuine supranational government (not just governance) with clear institutional legitimacy with respect to both the EU order and the national constitutional orders. The most significant political boost in this direction is generally associated with the French President Macron (see his famous Sorbonne speech in November 2017). In December, the then Italian Finance Minister Padoan handed out to his peers a position paper which actually lined up Italy with France.6 Italy, and possibly Spain, might be part of the leading group, but political uncertainties may keep them out. The reform agenda typically includes:

- completing the Banking Union
- transforming the European Stability Mechanism into a "European Monetary Fund", enlarging its mandate and capacity in order to support countries that lose access to capital markets, and to provide adequate capital for the SRM
- creating a genuine "Finance Minister of Europe", with clear political mandate and budget capacity within the EU framework

3. Having outlined the main alternative models of EMU reform, in this sec-

[6] Ministero dell'Economia e Finanza, Reforming the European Monetary Union in a stronger European Union, Rome, December 2017.

tion I will focus on a few issues that are both central to reform plans and particularly controversial, namely the European Monetary Fund, the European Minister of Finance, and the future of the Fiscal Compact and the EMU fiscal policy in general.

3.1. Amid the financial turmoil of 2010-12 it was realised that the EMU was lacking an adequate capacity of lending of last resort. Under the immediate pressure of the Greek crisis, the European Financial Stability Mechanism was created, then transformed into the European Stability Mechanism (ESM) in October 2012 with an initial capital of €81 bln. and lending capacity of €700 bln. On paper the ESM ranks as an outstanding regional stabilisation fund, though doubts are present from the very beginning about its capacity to withstand a Union-wide crisis or even a crisis of large countries like Italy (Lossani 2018).

There seems to be wide agreement to transform the ESM into a stronger EMF, but some critical points stand in the way. High risk exists that it is designed in a way that makes it unusable. Again, the most controversial points are epitomised in two alternatives views, the "Commission view" (2017b) and the "Schauble view" (2017). In essence, the former is akin to the Confederal model, the latter is in line with Maastricht 2.0 (see Lossani 2018).

Lending capacity and range

As said above, it is doubtful whether the present lending capacity of the ESM is sufficient for the new EMF. Moreover, this issue intersects with the design of the Banking Union to the extent that the EMF might enlarge its operation range to include the role of backstop for the bank crises resolution mechanism, and the common deposit insurance, which is at a standstill.

Governance

Proposals sharply differ on this point. Followers of the Commission view claim that EMF should be rooted in the EU legislation, and that it should overcome the intergovernmental and unanimity governance of the ESM. Followers of the Schauble view instead wish that governance and decision-making remain firmly in the hands of governments under the unanimity rule (i.e. the possibility of veto power).

Conditionality

There is broad agreement around the classic principles of lending of last resort: (i) loans should go to illiquid, not to insolvent, borrowers, (ii) they should be conditional on consistent actions that overcome the problem. However, as far as governments are concerned, this is more easily said than done. The IMF long-standing protocols may provide a benchmark, but the unfortunate experience of the IMF involvement in the Greek crisis is telling about the difficulties faced in the EMU (Wyplosz 2013). One critical issue is that conditionality should be calibrated accurately, case by case, because excessive conditionality may transform an illiquid debtor into an insolvent one and trigger the sovereign debt crisis which is supposed to prevent. Also, conditionality should be devised with all means necessary to obtain ownership and compliance by governments (no Troika-style *diktats*).

Surveillance of national public finances

As said above, a tenet of the Maastricht 2.0 model is that this has been a major flaw in the system and its strengthening is a priority. In the Schauble view, the new EMF should be assigned this task too. This proposal seems at odds with the strong preference in the Maastricht 2.0 model for a technocratic body, if the EMF should also retain a substantial intergovernmental nature (see above). However, the common ground is that the implementation of the Fiscal Compact should be subtracted to the Commission. Of course, the Commission view, and also the supporters of the Confederal model, oppose the idea that the EMF is overburdened with this task, which should rather be assigned to another more representative body such as the "European Finance Minister" (see below).

The hurdle of moral hazard

It is important to understand that there is a common critical cleavage across these issues: the problem of moral hazard (which in the EMU context means that the mechanism may hide permanent transfers to "weak" members) inherent in any insurance mechanism, or from a complementary point of view, the problem of mistrust among the EMU members. In the Schauble view, moral hazard is of paramount importance and its resolution is a *sine-qua-non* precondition. However, the true divide between the different views is not so much about the existence of the problem (it does exist and it is important) but about *how* to address it.

All the many authoritative proposals on the table do include mechanisms aimed at minimising moral hazard that take stock of the theoretical literature and long-standing experiences both in the private and public sector. The Schauble view and it followers instead insist on the two-stage strategy of *risk-reduction* prior to *risk-sharing*. This is quite a technical, and subtle, argument that cannot be developed here in depth. However a few considerations are in order.7

Though seemingly reasonable, the two-stage strategy hinges on uncertain foundations. According to the classic theory of risk, the distinction between risk reduction and risk sharing is pointless: risk sharing *is* the means to reduce risk. In this view risk is something intrinsic in an asset (like mass in physics), it cannot be *reduced* in absolute magnitude, but it can be *distributed* efficiently among asset-holders according to their own degree of risk aversion. Consider a bank with large non performing loans. These can be sold at a discount to a specialised intermediary happy with a higher risk-return profile. Both the bank and the intermediary are better-off, but the system as a whole is not safer. Technically speaking, the EMU may be safer if the intermediary is non-resident, but this is some of a hypocritical idea of risk reduction (if the non-resident intermediary goes bust it may have contagious effects on resident intermediaries connected with it). Risk reduction can, at most, be an *ex-ante* policy strategy based on micro- and macro-prudential tools.

A second weakness of the two-stage strategy arises if it is recognised that financial risks are to some extent endogenous. Suppose now that there are many banks with non performing loans who seek to sell them all together. The effect is

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[7] A lively debate is under way: see e.g. the most recent document of fourteen French and German economists (CEPR 2018), the reply by some Italian economists, Messori and Micossi (2018), Bini Smaghi (2018), and a speech by the ECB President Draghi (2018).

that the interbank market shrinks, sale prices plummet, volatility increases, and the market value of banks' assets falls. These effects make the whole system *more* risky.

What said above also applies to the case of banks forced to sell sovereign bonds. Here, as in other fields, there seems to be an obdurate resistance to recognise the systemic effects of seemingly efficient policies taken in isolation.

Important as it may be for an accurate design, the fear of moral hazard seems overstretched to cover political fears. Were moral hazard the tombstone of insurance schemes, insurance companies would have not survived. Theory and practice of control of moral hazard has made enormous progress in parallel with risk management techniques. Moreover, it is almost ignored that moral hazard has two sides. Beside the most feared incentive to buy insurance and take on too much risk for all, there is the failure to create insurance as a consequence of under-rating of risk ("it cannot happen to me"). In the former case there is over-insurance, in the latter under-insurance. *Both* are collective failures that impose welfare losses on *each and all* members.

Finally, if risk reduction is a dangerous *ex-post* policy once the *ex-ante* prudential polices have failed, a more sensible approach seems the recognition of the *crisis legacy problem*. A proposal that follows this approach is the so called PADRE (Paris and Wyplosz 2014). Like after wars, the first imperative is to "clear up the mess". History teaches that it is hardly possible to build new and solid institutions and relationships on the ruins of the disaster (compare the different courses of history impressed by the winners after World War I and World War II).

3.2. This is an evocative but elusive idea, quite different in the Maastricht 2.0 or in the Confederal model. A lot of stumbling blocks stand in the way. Clearly the two front matters − how the Finance Minister is appointed and with what mandate and powers – are interconnected: it is hard to decide on one matter before the other. Anyway, let me start from the latter.

What mandate and powers?

A recent assessment of the existing proposals (Asatryan et al. 2018) aptly puts forward a "functional" approach, i.e. to what extent the Finance Minister might contribute to improve on the following dimensions which shine up prominently across various ideas of a well functioning fiscal arm of the EMU: (i) safeguarding fiscal sustainability of member states, (ii) stabilizing EMU against macroeconomic shocks, (iii) stronger incentives for structural reforms, (iv) optimum provision of European public goods through the EU budget.

If there is agreement on the necessity to improve on these goals by means of "further integration", much less agreement exists about whether the EMU needs a Finance Minister.8 In this perspective, the Maastricht 2.0 and the Confederal models can also be distinguished, respectively, according to their preference for *decentralisation* (rule-constrained national responsibility) or *centralisation* (with sovereignty sharing). The Finance Minister is clearly a form of policy centralisation and is therefore problematic for those who think that decentralisation is more efficient, or at least more realistic in the present historical conditions of Europe. For instance, a typical objection by the followers of Maastricht 2.0 on point (i) relates to the concern with "politicisation". While greater coherence in the implementation of fiscal rules may have efficiency gains, they see a material risk that such gains could be more than offset by greater political discretionality. Priorities in the reform of EU fiscal governance are seen elsewhere, such as in the significant simplification of rules and independent institutions. However, should the Minister be put in place, the related politicisation risk could be mitigated by giving more power to the European Fiscal Board in a checks and balances logic.

Particularly critical is the fact that some of the key functions of the Finance Minister (e.g. (ii) and (iv)) necessarily require a true EU budget. The key issue of the dimension and destination of the EU budget remains controversial, with a well entrenched resistance line. Some aggregate stabilisation tools or lines of investment may find their way, whereas full-fledged instruments of debt sharing, risk

[8] The conclusion of the above mentioned paper is that the Minister might do well in some matters, (ii) and (iii), but not in others, (i) and (iv).

sharing or fiscal transfers will hardly have a chance.

How is the Finance Minister appointed?

At least three "formats" of Minister have been put forward. The Commission (2017c) proposes that the Minister is the president elect of the Eurogroup and Vice-president of the Commission. Moreover, he/she would chair the ESM and – once this is established - the EMF. He/she would represent the Commission in the meetings of the ECB's Governing Council and also be responsible for EU-level social dialogue and interaction with important stakeholders. And finally, the Minister would be accountable to the European Parliament. This proposal seems to be bending towards a political profile of the Minister. But the legitimacy problem is far from being solved. The Eurogroup itself is a problematic entity, that many regard as too intergovernmental and ill placed within the EU order. It is not by multiplication of chairs that this problem can be resolved.

A second profile is akin to a non-political body modelled on the European Fiscal Board. This profile, while possibly including policy orientation, harmonization and guidance for the EMU as a whole, is more focused on the aim of monitoring and controlling national policies in compliance with the commitments to fiscal discipline. Hence, this is also more in tune with the Maastricht 2.0 model of EMU reform.

In a third view, more consistent with the Confederal model of reform, the Minister should be designed with consideration of *legitimacy*, *competency*, *normative power*. These requisites can only be found in a collegiate body with some clearly identifiable democratic legitimacy, albeit indirect. The natural solution is that the Minister is (the elected chairperson of) a council of national ministers (call it "Eurogroup 2.0").9 Common inspiration is the well-known leading principle of institutional design of separation between political and non-political bodies with a clear-cut red line. Both the chairperson and the collegiate body should better be

[9] This idea has been circulated under various shapes: the European Fiscal Institute (Tabellini 2016), the Euorsystem of Fiscal Policy (Sapir and Wolff 2015), the European Federal Institute (Guiso and Morelli 2014), and, unnamed, is also present in the French-German economists' proposal (CEPR 2018).

independent of the Commission or of other non-political bodies. At the same time, this kind of Minister should also be accountable *at the EMU level*, not only *vis-à-vis* national constituencies. In parallel, the European Fiscal Board may retain, or even enhance, its role of independent control *vis-à-vis* the Minister. In a nutshell, these are nothing else than reproductions of the classic system of checks and balances on which modern democracies rest.

3.3. The issue of the reform of fiscal governance will revolve around the Fiscal Compact, and in the first place whether it should become integral part of the EU legislation (at the moment it is "only" an international treaty). The Commission and the supporters of Maastricht 2.0 are strongly in favour. France's position is unclear, though it may bend towards a softer version as a compromise. Italy has already said no with bipartisan voice.

Fiscal rules and macroeconomic stabilisation

Main arguments of critics of the Fiscal Compact as-it-is are that, first, the Fiscal Compact does not resolve (it possibly worsens) the problems created by the fiscal rules during the crisis. Second, federal systems show that if national budgets are to be constrained significantly, then they should be smaller than they are in the EMU members; more competences should be moved to the supranational level (you cannot have both the Fiscal Compact and no EMU budget). The concern is therefore that an uncompromised enforcement of the Fiscal Compact interferes with the goal of enhancing the stabilisation capacity of the EMU, which ranks high in the agenda of EMU reforms (Baldwin and Giavazzi (eds.) 2106, Part 3; CEPR 2018). The agenda, with variable degree of agreement, includes

- rewriting the national fiscal rules in a simpler and more transparent way, removing procyclical mechanisms, and with a shift of focus from year deficits to medium-long term evolution and sustainability of debt
- better coordination of national fiscal policies so that reciprocal spillovers are taken in due account as well as the *aggregate* fiscal stance of the EMU *vis-à-vis* the ECB in order to achieve better coordination between the monetary and the

fiscal arm of stabilisation

• manage a few common resources acting as "shock absorbers" (from unemployment insurance schemes to support for public investments)

If creating new common stabilisations tools is not an easy task, it appears less demanding, from the institutional and political point of view, in comparison with more ambitious steps towards further integration. Had some concrete measures been taken in due time, the effects of the crisis would probably have been less dramatic, not least for the credibility of the EMU in the eyes of the citizens. Further inertia on this ground seems hardly justifiable. First of all, fiscal policy can entirely remain under the responsibility of sovereign governments. Second, fiscal rules, whether in their present form or, possibly, reformed, need not be abolished. They may be good for normal times, yet the coordination institution should have the *formal and codified power* to suspend them and indicate appropriate fiscal policies for each member, whenever the latter are expected to produce better outcomes.10 This codification is of the utmost importance in order to avoid disorderly, arbitrary and opaque negotiations concerning the application of the rules, with the inappropriate involvement of the Commission and its exposure to the (hypocritical) allegation of being "politicised".11

Rules versus discretion

More deeply, the Fiscal Compact presents foundational problems inherent in the ideology of rules vs. discretion of governments on which the US Neoliberalism and the German Ordoliberalism have converged. The substantial point is that the destiny of the Fiscal Compact cannot be decided independently of the model of Union that we want to have.

At the end of the day, the whole matter under discussion is about contracts

[10]An early experiment in this direction, almost fell into oblivion, was the European Recovery Plan launched in the immediate aftermath of the 2008-09 recession whereby the Commission indicated for each country the extent of appropriate fiscal stimulus regardless of the 3% ceiling.

[11]As Bini Smaghi writes, "It is an academic illusion to think that fiscal policy can be run through simple rules, especially at times of crises, where the depth of the recession needs to be carefully assessed to avoid pro-cyclicality, or outsourced to Fiscal councils, national or European" (2018, p.8)

among governments (high-rank contracts of quasi-constitutional level). These involve mutual trust and credibility. "Credibility" has two meanings: one is whether commitments *will* be respected; the other is whether they *can* be respected. History matters, of course. But the problem eventually lies in the fundamental issue of uncertainty and *contract incompleteness*. Since the ideal conditions of complete contracting (a complete specification of "if … then" clauses in all possible states of the world) seldom occur in reality, the clear-cut solutions to be found in the "rules, not discretion" prescription can hardly be applied. Let me quote a thinker regarded as the pole star of liberalism:

If man is not to do more harm than good in his efforts to improve the social order, he will have to learn that in this, as in all other fields were essential complexity of an organized kind prevails, he cannot acquire the full knowledge which would make mastery of the events possible" (von Hayek 1974, p. 7).

What we do observe (except in the EMU?) is that the higher the legal rank of the contract, the more the contract contains general and abstract principles (or the less it contains specific and state-contingent mandatory rules). "Discretion" is the necessary evil, as it were, of incomplete contracts, and the true task of high-rank charts is how to discipline, not suppress, discretion. This is generally accomplished under two dimensions. First, define who is legitimised to exert discretionary decision-making – in liberal democracies these are elected representatives. Second, strike a balance between tying the hands of the decision-maker (minimise the abuse of authority) and its scope of effective discretion in the face of unforeseen contingencies (remembering that the electors do expect the elected to exert their powers in such contingencies).

At the root of the problems that cripple the EMU and its further progress, I think, lies an obdurate illusion to circumvent these fundamental questions of viable, credible, long-lasting legal charts. We may offer a good service if we make an effort to bring this challenge to the forefront.

4. It is natural to wonder how is it that so far no one of the many proposals

for EMU reform on the table has got political support. The answer is simple. There is general dissatisfaction with the *status quo*, but diagnoses and cures (and national interests) differ at the political level, hence reform agendas differ too. Therefore, Europe in the near future will be the field not only of the battle between pro-Europe and anti-Europe forces, but at the same time of the confrontation between different views of the future of Europe. This will be more gentle and polite, but no less hard and probably more fundamental. If anything because a bad reform, or no reform, will also, more sooner than later, pave the way to the final victory of the mounting anti-Europe forces.

Indeed, the climate is quickly worsening. The latest summit in June 2018, which was expected to lay the foundations of the EMU reform, was a *fiasco*.

Contrary to the prediction of experts in international relations, the wide agenda of the summit did not help find agreements by way of interest compensations across issues. Starting from with the migrant crisis, the number of non-negotiable matters was multiplied. The EMU reform was simply put aside to an indeterminate future.

Genuine reformers will need the credible determination to present all other players with a clear-cut alternative: either a serious reform is begun here and now, with all the necessary ingredients, those which "the South" dislikes as well as those which "the North" dislikes, or everyone will have to take their own share of responsibility for saying ‘No’ to give the EMU a future.

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