

## THE EURO MUST NOT LEAD INTO A LIABILITY UNION

We, 154 professors of economics, warn against further steps transforming the European monetary and banking union towards a system in which each country is liable for the errors of others, i. e. a „Liability Union“. The proposals of French President Macron and EU Commission President Juncker, which have found their way into the Berlin coalition agreement, pose serious risks for the citizens of Europe.

1. If the European Stability Mechanism (ESM) becomes a backstop for restructuring banks, as planned, this weakens the incentives of banks and supervisory authorities to adequately deal with non-performing loans. It would impair economic growth and financial stability.
2. If the ESM is transformed into an EU institution called „European Monetary Fund“ (EMF), as planned, it comes under the influence of countries which are not participating in the euro. Moreover, since individual countries are supposed to lose their right of veto in urgent EMF decisions, creditor countries could be outvoted. As a result the German parliament, for example, would lose its right of control.
3. If the deposit insurance schemes of the Member States are merged, as planned, the cost of past mistakes committed by banks and governments would be socialized.
4. The proposed European investment fund for macroeconomic stabilization and the proposed fund for supporting structural reforms are likely to provide further transfers and credits to eurozone countries which in the past have failed to adopt adequate reforms. It is wrong to reward failure. In the interbank settlement system TARGET2 Germany has already accepted more than 900 billion euros of ECB liabilities which neither bear interest nor have to be repaid.
5. A European Minister of Finance with a fiscal capacity would be a direct counterpart for the ECB, reinforcing political pressure on monetary policy. The ECB will have bought 2,550 billion euros of bonds by September 2018. This is equivalent to state financing by the central bank.

It is a fundamental principle of the social market economy that everybody is responsible for the consequences of his or her actions. The Liability Union undermines growth and endangers prosperity in the whole of Europe. This has already led to falling wages for an increasing number of people, especially among the young. Thus, we call upon the German government to remember the fundamental principles of the social market economy.

Our task now is to advance structural reform – not to establish new credit lines and distort economic incentives even further. Government bonds should no longer be privileged in the risk management of banks. The eurozone needs an orderly insolvency procedure for countries and an orderly exit procedure. The capital market union ought to be completed. This would contribute to macroeconomic stabilization because international capital movements offset asymmetric shocks. In the ECB, liability and voting rights should be linked. TARGET balances ought to be settled at regular intervals. The ECB's purchases of government bonds should soon be stopped.