

### An inspired vision is needed

This week's meeting of the [European Council](#) is, again, marked by high expectations. The financial markets and the media expect the leaders of the European Union to finally agree decisive steps that break the banking/sovereign debt negative feedback loop and provide a perspective on a well-functioning monetary union. The current EMU structure has proved far too prone to speculative attacks and national dithering. As the Bank for International Settlements in Basle ([BIS](#)) clearly sets out in its [Annual Report](#), "particularly vicious cycles [are] currently bedevilling Europe". The [IMF](#), the BIS, [commentators](#) and the [UK government](#) ask for "banking union", in the latter case with an opt-out for London, of course. Quoting the BIS again, "a pan-European financial market and a pan-European central bank require a pan-European banking system." The '[trilemma](#)' between a stable financial system, an integrated financial market and national financial supervision has proved intractable in a monetary union. The deep financial crisis undermined state budgets and national banking systems. In a single currency area, relying on state budgets and national supervisors for bank resolutions undermines confidence in the single market and the single currency. Monetary union needs banking union.

At the same time, a single currency for the largest economic region in the world requires effective decision-making. The EU's decision-making process has proven not up to the task. Its (over-)reliance on national policymakers agreeing on a common stance proved too optimistic in a situation of crisis. Worse, these national policymakers stepped outside of the Union structures to keep decision-making power for themselves. That's how we ended up having an [EFSF](#) and an [ESM](#) on the basis of separate legal instruments. And it is one of the reasons why we have a separate [fiscal compact](#) treaty among 25 States that supplements the TFEU.

Full banking union will not be achievable on the basis of the current Treaty. But immediate steps can, and should be taken, based on the [TFEU](#). The [supervisory remit of the ECB](#) can be expanded right away, giving it operational powers of supervision over major banks. Further specification of the role of EU supervisors over the entire financial sector, encompassing the newly established [EBA](#), [ESMA](#) and [EIOPA](#), can wait.

Beyond financial-market specific measures, there is a need for Europe's leaders to frame the crisis in terms of common challenges. We should move away from the emphasis on national

sovereignty. Only a pooled exercise of our sovereignty will enable us to withstand attacks from financial markets players and commentators. Either they win or we win, acting collectively. As long as states continue to act on their own, we will not succeed. With the media and the financial markets gripped by their own narrative of individual nations having mistakenly agreed to a single currency, there is an urgent need for our politicians to act as European leaders. ‘European’: they should dare to focus beyond their own national mandates. ‘Leaders’: they should provide vision. Yes, this requires courage, and determination. As I have [written elsewhere](#), we have by now come to know [how the media and the markets are in their own negative feedback loop](#): feeding on disappointing news and setbacks, they continue to talk us deeper into the crisis. And to set us apart from each other. It is time to recognize again [our common project](#) for what it is: an enterprise in joining our economies and societies to better face global competition and to shield ourselves from reverting to the feuding and bloodshed that historically ravaged our continent. And to provide our citizens and companies with a measure of freedom and social protection in a democratic market economy that acts as a magnet for many outside the EU. In order to redefine our situation, an inspiring vision is needed. This vision should also be practical and include fast disbursement to jointly funded projects, to raise the prospect of sustainable economic growth. This summit is about regaining the initiative as leaders of Europe.

René Smits

26 June 2012

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