EUROPE 20.07.2017 | Jan Cornillie

A banking union without unity

Italy's banking crisis highlights an urgent need to Eurozone reform

"Well, would you believe it!", they must have been thinking across Europe when the Italian government announced it was bailing out two of the country's banks to the tune of 17 billion euros. The European banking union was created on the promise that taxpayers would no longer have to pay to rescue any banks. But now Italy is doing exactly that, confirming fears that it won't be playing by the rules once again. What happened to the promise of a true European banking union that would consign bailouts to the history books? The promise that a European deposit fund would spare savers from any future crises? The promise that a European stability mechanism would counteract the negative impact of failing banks on the economy? It was nothing but a pipe dream. New rules were drawn up, but they lacked the requisite political backing from EU member states. So nothing has changed. Member states are bailing out their banks with taxpayers' money to prevent things from getting worse. We, in the eurozone, are playing with fire.

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Berlin and The Hague are delighted it's not their money of course. They will use the Italian bank bailouts to push the common European deposit guarantee scheme back even further. Without any European consensus on the issue, member states will carry on nationalising banks and the rules will be dead in the water. Because, while EU rules stipulate what you can't do, they don't say what you could do instead. The banking union has caught the same bug as the eurozone. This lack of solidarity in Europe means that member states are not making economically sound decisions.

To prevent the Italian bailout from happening again, we need to protect savers and prevent other banks from being affected. But it is precisely because of a lack of solidarity across Europe that governments prefer to

opt for the uncertain and the unknown. After all, what government wants to risk an economic crisis by bankrupting savers? Certainly not a country that has been plagued by slow growth and where euroscepticism is on the rise. The safer option for them is to simply take over the bad banks.

The Italian banking saga should serve as a wake-up call for Europe's left to make reforming the eurozone an absolute top priority. The focus now is on the new <link topics european-union article show making-work-work-2050>'Pillar of Social Rights'- a document outlining 20 principles to improve living and working conditions across the continent. But this 'pillar' offers no guarantees. Rather, the eurozone itself needs social reform – with an EU budget that can absorb any shocks, with a proper banking union that provides solidarity in times of crisis, instead of forcing the hand of individual countries when one or more banks are in trouble.

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Spain is one example of a country that allowed a bank to fold. "They reformed and now they are seeing growth again", the hardliners may say. "Austerity and structural reforms are working." Sounds good in theory, but in practice it's a different story. Spain is held up as a model for European structural reforms, having saved 5.4 percent of its GDP between 2010 and 2014. But this came at the cost of a plummeting economy and high unemployment. Now the Spanish economy is growing again, but only because the government ceased its austerity measures in 2015. Spain's economy is even growing faster than Portugal's, the poster child of the rebellious left. Portugal saved more than Spain – 6.7 percent of its GDP from 2010 and 2014 – but did not manage to stimulate as much economic growth as its neighbour. The reason for this European Spring is exactly why we need to stop the destructive policy of austerity in Europe. In 2015, the European Commission saw the light and is now promoting budgetary flexibility. And as a result, the eurozone stopped feeling the economic crunch and is flourishing once again.

Social democrats in Europe could learn something here. The most important social measure for the eurozone at the moment is flexibility –

specifically budgetary flexibility. The eurozone is recovering by allowing its national governments to invest where families and businesses are unable to – by financing social security at a time when the market has let them down. Now the European Union is gearing up to make major agreements on the future of Europe, social democrats need to be on guard. The eurozone needs <link topics european-union article show eu-assurance-co-2037>reinsurance, not a handout here and there.



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