A retrospective on the private sector's attitude towards EMU: from the single currency to a supranational safe asset

Christakis Georgiou

UNIVERSITÉ DE GENÈVE
GLOBAL STUDIES INSTITUTE

CENTRE DE COMPÉTENCES DUSAN SIDJANSKI EN ÉTUDES EUROPÉENNES

1. Introduction – some theory

1. Rise of pan-European corporations key feature of European integration. Core constituency for single market (both product and financial)

2. Deepening of integration → productive polarization within single market + growing cross-border finance → entrenched structure of macro imbalances between surplus North and deficit South

3. Macro imbalances → financial risks → destabilise and fragment single (financial) market

Source of private sector’s views: how to deal with these risks?

1. Introduction – some theory

4. Monetary union transforms financial risk arising from imbalances:

currency to sovereign credit risk → strong vs weak currency MSs to safe havens vs risky MS debt → benchmark asset: DM to Bund

5. Perception more important than fundamentals for financial markets (following Kindleberger and Minsky)

Examples: early 1990s and ERM crisis; early 2010s and Italian debt crisis; March 2020 jitters

6. Corporate preferences re EMU are crucial: public policy implementation depends on what financial assets financial corporations choose to hold

2. Before the euro

Academic studies: Jeffry Frieden’s work

Historical accounts: Story of AMUE (Collignon & Schwarzer 2003) + ELEC’s views before 1980s anticipated developments (Dumoulin 1993, chapter 6)

[Missing: a historical account of ELEC’s monetary commission and panel in 1986-2002]

Even after inflation rates converge across MSs (mid-1980s), currency crises and parity dealignments persist → wreak havoc in relative price structure across single market

Corporate sector concludes late 1980s only solution is most radical → a single currency by definition eliminates currency risk

Rejects parallel currency proposals and coronation theory

3. After the euro: before the storm

1999-2009: corporate sector supports + promotes interchangeability of Member state bonds. Not yet a sovereign debt crisis that would shift debate to radical solutions

Giovannini group → support for 2002 Financial Collateral Directive

Support for ECB's «One bond» policy on collateral eligibility (but ECB continues to follow credit ratings, apply haircuts and make margin calls on collateral)

All of which congruent with BCBS regulatory treatment of OECD sovereign debt

Market pricing of Member state bonds reflects same preference

Decade of great progress in cross-border finance

3. After the euro: during the storm

This is based on my 2022 article

Corporate power and the resolution of the Eurozone crisis
Christakis Georgiou
DANS **POLITIQUE EUROPÉENNE 2022/3 (N° 77)**, PAGES 66 À 114

2010-12 Eurozone crisis → a clash between large Europeanised banks, insurers, investors and German government and allies over safety of public debt and role of market discipline

Crystallized by Deauville agreement on post-2013 PSI → triggers «credit strike» + unravels «grand bargain» between banks and governments (Bastasin 2015)

«Whatever it takes»/OMT offer unlimited backstop clamoured for by investors

3. After the euro: after the storm

Corporate sector fully behind QE *à l'européenne*: PSPP, PEPP, TPI – an *ex-post* measure until an *ex-ante* solution can be implemented

Support for solution based on greater «risk sharing» → a supranational safe asset. Blueprint is US public debt market with US Treasury as linchpin

Typified by financial sector's stance over SBBS proposal («synthetic safe asset»): lukewarm at best; distant second best to joint issuance of EU debt

Enthusiastic support for NGEU → issuance of debt backed by EU budget, no MS guarantees

Principle of mutualization/risk sharing entailed in EU taxes to be raised for servicing debt – not in pooling legacy liabilities («Eurobonds»)

4. Conclusion

Corporate sector core constituency for deepening EMU

Closely related to support for single market – in particular financial (Capital Markets Union)

Political implications of a permanent EU borrowing capacity are momentous: full fiscal powers for EU, democratically legitimated through ordinary legislative procedure/EP participation