THE PAST AND FUTURE OF THE EURO

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Abstract

This contribution discusses the experience of the euro, and the extent to which its future is promising. The discussion begins with the Economic and Monetary Union (EMU) theoretical framework and policies, and adopted by the European Central Bank (ECB), and the extent to which fiscal policy, pursued by the EMU member countries, and monetary policy, pursued by the ECB, have been successful. The theoretical background of this approach is based on the New Consensus Macroeconomics (NCM), but it differs; and this is elaborated upon and discussed extensively. This discussion inevitably includes the post Global Financial Crisis (GFC), the Great Recession (GR) and the euro-crisis period in an attempt to examine the consistency of the theoretical background and the fiscal and monetary policies pursued. In terms of the future of the euro, the discussion just suggested enables this contribution to conclude that the extent to which the euro would survive requires further economic policies. Such policies, in addition to the current monetary policy, should be especially proper EMU fiscal policy, and other policies as discussed in this contribution. In effect this amounts to the suggestion that political integration is what is required to enable the euro to survive in the future.

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INTRODUCTION

The EMU and ECB launched the single currency (euro) in 1999.[2] The euro has been operating since 1999 as a virtual currency and since 2002 when its introduction was technically accomplished. The euro-area countries have not experienced promising economic performance since the introduction of the euro. Inflation has not always met the 'close to 2 percent from below' ECB inflation target. More recently it has been a continuous undershooting of inflation (this is the annual core inflation, which excludes volatile prices of energy and unprocessed food and tobacco and at which the ECB looks in its policy decisions), which was 1.1 per cent in February 2018 and expected to remain below the ECB's target in the future. Also, economic growth has been sluggish, and unemployment has remained high. Unemployment in the euro area, and in 2010, was 10% of the labour force. The latest figures (The Economist 12 May, 2018) suggest that it is 8.5% (as in March, 2018). In the USA it was also 10% in 2010 (the top US unemployment rate of the 'Great Recession'; the equivalent during the 'Great Depression' was 25 percent), but the latest figure is 3.9% (as in April, 2018). It is also the case that euro area youth unemployment (people unemployed who are between 15 and 25 years old) is high at 17.3% (as in March, 2018).[3] In the USA it is not so high, 8.5% (as in March, 2018).[4] Unemployment has been significantly different among the EMU countries; some examples make the point. Unemployment in March 2018 was: in Spain it was 16.1%, in Italy 11.0%, in France 8.8%, and in January 2018 was 20.6% in Greece (The Economist, 12 May, 2018). By contrast, and in March 2018, it was 5.0% in Austria, 3.4% in Germany and 4.1% in Denmark (The Economist *op. cit*.).

The euro area framework has not been effective to address these significant differences. This has been particularly so with the peripheral countries but not only as shown above. This raises issues about the future longer-term euro-area growth potential. It is also the case that the euro-area inflation is stubbornly below the ECB's 'close to 2% from below' target. Another serious problem is convergence among member countries, which has not materialised. This is so in view of the non-existence of a euro area fiscal policy; the latter is in the hands of national governments as shown below, and in the form of fiscal rules. These, however, have not been effective to promote convergence. It is also the case that banking supervision, and until recently, remained in the hands of the euro-area countries. This had serious differences in their financial fragility. However, and more recently, there have been signs of economic growth upswing; the GDP euro-area growth rate of the 4th quarter of 2017 was 2.7% (The Economist 05 May, 2018) and expected to be 2.3% in 2018 (The Economist, 12 May, 2018).[5] According to the IMF (Lagarde 2018), the euro-area GDP growth rate is expected to be 2.2% for 2018, and the global growth rate 3.9%. But at the 2018 World Economic Forum (WEF), delegates were cautious on the upswing, not just in the EMU but also in the global economy. Especially so according to the IMF Managing Director, who stated that "use this time to find lasting solutions to the challenges facing the global economy" (Financial Times 26 February, 2018). Also, the ECB President acknowledged after the governing council meeting on 26 April 2018, that a "moderation" in the euro area's recovery and "a loss of momentum that is pretty broad-based across countries and all sectors" is evident (as reported in the Financial Times 27 April 2018).

We proceed in section 2 to discuss the EMU theoretical framework, along with the economic policies in the EMU; the emphasis being on the EMU fiscal and monetary policies. Section 3 discusses the extent to

[2] When the euro was launched, the EMU members were eleven countries, namely Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain. Another eight countries joined the EMU subsequently, Greece, Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia and Slovenia.
3 Available at: http://www.tradingeconomics.com/euro-area/youth-unemployment-rate
[4] Available at: http://www.tradingeconomics.com/united-states/youth-unemploymen t-rate
[5] Examples in terms of growth rates, as expected in 2018, are: Austria 2.8%, France 2.0%, Germany 2.3%, Greece 1.6%, Italy 1.4% and Spain 2.8% (The Economist, 2018). Spain apparently has done better than the rest of the euro-area countries. This is due to the economic policies undertaken by the government there, most important of which have been structural changes, essentially falling labour costs.

which the EMU economic policies have been successful since its creation along with the question of whether the euro can survive without political integration. We summarise and conclude in section 4.

EMU THEORETICAL FRAMEWORK AND POLICIES

The EMU approach, in terms of its theoretical dimension and economic policies, relies on the New Consensus Macroeconomics (NCM) model (see, for example, Arestis 2007). Its key elements are therefore as follows: the market economy is essentially stable, and as such does not need macroeconomic policies, particularly discretionary fiscal policies. The only policy that can be effective is monetary policy. Monetary policy is the only instrument that can affect inflation in the long run in view of the assumption that the inflation rate is the only macroeconomic variable that monetary policy can affect in view of the further assumption that inflation is a monetary phenomenon. Fiscal policy is not viewed as a powerful macroeconomic instrument in view of the Ricardian Equivalence Theorem (Arestis 2012). Monetary policy has, thus, been upgraded and fiscal policy has been downgraded; fiscal policy can only serve to achieve a balanced budget. Monetary policy can achieve the set inflation target and thereby macroeconomic stability emerges.

The adoption of the price stability as the only objective of monetary policy to be achieved by the ECB as an 'independent' Central Bank, with only one instrument, namely manipulation of the ECB's rate of interest, clearly signals the adoption of the NCM agenda (Arestis and Sawyer 2006a, 2006c). The ECB and the national euro-area central banks (NCBs) are not allowed to seek or take instructions from any other institutions or of any of the EMU member countries. Monetary policy should be operated by experts (whether bankers, economists or others) in the form of an independent Central Bank; "this is an effective and credible monetary-policy making" (Yellen 2017). However, Angeriz et al. (2008) show that central bank independence has not produced the expected outcomes. Also, Angeriz and Arestis (2007, 2008) demonstrate that low inflation and price stability do not always lead to macroeconomic stability. The emergence of the GFC and the GR provide ample evidence of this proposition.

The main rationale for the ECB independence, the proponents suggest, is that governments should not be trusted to deal with price stability in view of their concern with electoral success; thereby sacrificing higher inflation for lower unemployment. In this sense central bank independence has a fundamental impact on inflationary expectations, which is a major factor in enabling the monetary authorities to achieve their inflation target. This approach of course raises the issue of whether independence of the ECB has worked as intended. Angeriz et al. (2008) demonstrate that there has only been a marginal effect of such independence. Harcourt *et al*. (2018) examine the emergence of the ECB and demonstrate that the notion of central bank independence is based on a political rather than on an economic argument, thereby leading to sub-optimal economic results. It is also argued by Harcourt *et al.* (*op. cit*.) that the view of central bank independence based on the argument that inflationary expectations have a significant impact on inflation, is questionable; there is no theoretical justification or empirical evidence on this issue (see, also, Forder 2004). Furthermore, and in terms of recent experience and the euro crisis in particular, the ECB independence seems to have been undermined. The Outright Monetary Transaction (OMT) programme, suggested in September 2012, but never implemented, was opposed by some EMU member governments, especially by Germany.[6] Similar objections were raised for the Quantitative Easing (QE). The latter, however, was eventually introduced in March 2015, after the European Court of Justice decion (see footnote 5).

[6] Germany's Central Bank, the Bundesbank, opposed OMT in that it was close to monetary financing. The Bundesbank objection was referred to the German constitutional court, whose view on the matter was similar to the Bundesbank's. The ECB OMT scheme was referred to the European Court of Justice (ECJ) on 7 February 2014. On the 14th of January 2015, the ECJ released an Advocate General opinion, which suggested that the OMT was in line with EU law, with a final ruling issued on the 16th of June 2015, declaring the ECB bond-buying plan legal.

In terms of the ECB policy dimension, it contains the view that inflation is best controlled through interest rate manipulation to achieve the 'close to 2 per cent from below' inflation target. However, the money supply is also taken on board. A reference value of 4.5 percent for the M3 money supply is in place. This, it is hoped, improves communication between the public and policy-makers and provides discipline, accountability, transparency and flexibility to monetary policy. Strictly speaking, then, the ECB model differs from the inflation targeting of the NCM. It contains: an economic analysis and a monetary analysis. The rationale of the 'two-pillar' approach is based on the theoretical premise that there are different time perspectives in the conduct of monetary policy that require a different focus in each case. There is the short to medium term focus on price movements that requires economic analysis. The long-term price trends require monetary analysis.

The ECB economic analysis is an assessment of price developments and the risks to price stability over the short to medium term. A range of indicators are accounted, and summarized in ECB (2004: 55-57). The ECB monetary approach relies heavily on monetary developments in terms of the long-run link between money and prices. Deviations from the 4.5 percent reference value would 'signal risks to price stability'. Monetary analysis is utilized by the ECB as a 'cross check' for consistency between it and the short-term perspective of economic analysis. In this approach, there is the strong belief that there is a long-term link between money (M3) and inflation as a result of a stable demand for money. This focus, of course, reflects the notion that inflation is a monetary phenomenon to be tackled by both manipulating the rate of interest and watching movements in M3. Short-term volatility of inflation is allowed but not in the long run, reflecting the view that monetary policy affects prices with a long lag.

In the long run there is no trade-off between inflation and unemployment, and the economy operates at the NAIRU if accelerating inflation is to be avoided. In the long run, inflation is viewed as a monetary phenomenon in that the pace of inflation is aligned with the rate of interest and the money stock. The essence of Say's Law holds, namely that the level of effective demand does not play an independent role in the (long run) determination of the level of economic activity, and adjusts to underpin the supply-side determined level of economic activity, which itself corresponds to the Non-Accelerating Inflation Rate of Unemployment (NAIRU). The NAIRU is a supply-side phenomenon closely related to the workings of the labour market.

We proceed in the next two sub-sections to discuss the EMU fiscal policy, followed by the ECB monetary policy. The discussion in both sections follows their implementation since the inauguration of the EMU.

EMU Fiscal Policy

Fiscal policy in the EMU is based essentially on the Stability and Growth Pact (SGP). Underlying the SGP approach is the notion of sound public finances (European Commission 2000). The SGP is essentially based on the proposition that government budgetary positions should be close to balance or in small surplus over the course of a business cycle and not to have a deficit of more than 0.2 percent of GDP. However, budgetary positions should not exceed 3 percent of GDP in any given year. Also of great importance is the debt to GDP ratio, which should not exceed 60%. The EMU member countries sharing the euro are expected to submit annual stability programmes,[7] which would be monitored in terms of their implementation. It should be noted, though, that there is no reason that a maximum of 3 percent of deficit to GDP is relevant for all countries. It is also the case that the budget position is sensitive to the business cycle. There is, thus, no economic theory or empirical evidence to justify the SGP.

[7] Other countries in the European union but not in the EMU should send convergence programmes.

Two changes emerged as a result of a number of countries broke the SGP rules, and problems that emanated from the euro crisis. The first ones were based on proposals endorsed by the European Council in March 2005. They were as follows: more budgetary consolidation in good times; more flexibility in reducing deficits in bad times; more focus on cutting the debt to GDP ratio; more room for manoeuvre for countries carrying out structural reforms; countries with sound finances allowed to run small deficits to invest. Although these proposed changes contained some flexibility, they still did not address the main problems as identified above.

The second changes, suggested at the meeting of the European Leaders that took place on the 8th/9th of December 2011 in Brussels, were signed on 2 March 2012 by most member countries of the European Union (EU). The result was an inter-government treaty, not a change to the EU treaties. A revised version of the SGP was agreed, the Treaty on Stability, Cooperation and Governance in the Economic and Monetary Union, what is now called the 'Fiscal Compact' (FC). Its main ingredients are the following: a firm commitment to 'balanced budgets' for the euro-area countries, defined as a structural deficit of no greater than 0.5% of GDP, which should be written into the national constitutions; automatic sanctions for any euro-area country whose deficit exceeds 3% of GDP; and a requirement to submit their national budgets to the European Commission, which has the power to request that they be revised. Also, the rule of the old SGP of 60 percent debt to GDP ratio is retained. Any excess should be eliminated at an average rate of a 20^{th} of the excess each year. FC entered into force on 1 January 2013. In effect the FC retains the principles of the previous SGP version but with the added one that countries that break the deficit rules may be punished. Clearly, the problems discussed above in relation to the SGP remain the same for the FC as well.

Arestis (2015) concludes that fiscal policy is a strong tool of economic policy in curing unemployment, especially so when coordinated with monetary and financial stability policies. Indeed, such coordination is the best way forward. Not only did the GR highlight the importance of fiscal policy but also that of financial stability, both of which had been seriously downgraded prior to the 'great recession'. Corsetti *et al*. (2016) suggest that monetary and fiscal policies 'together' are necessary to stabilise the level of economic activity and inflation, especially so when the central bank's policy rates stay close to the lower bound for a lengthy period. This is so since "the multiplier effect of government spending on output at the lower bound can be sizable. For the multiplier to be sizable, it is essential that monetary policy accommodates the fiscal stimulus" (Corcetti *et al*., *op. cit*.: 8; see, also, BIS 2011). It is also suggested that "The necessary fiscal accommodation might be sizable, potentially falling outside the limits of the Stability and Growth Pact" (p. 15).

EMU Monetary Policy

The ECB and the national central banks of countries making up the Euro area comprise the European System of Central Banks (ESCB). The ECB is responsible for the EMU monetary policy and is "independent from political influence" (ECB 2004: 12). The ESCB Treaty, Article 105 (1), states that "the primary objective of the ESCB shall be to maintain price stability" and that "without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2". Achieving price stability, it is suggested, ensures macroeconomic stability. However, the GFC has proved that this is not a valid proposition.

Another problem with the ECB is the function of the lender of last resort. The ECB intervenes only in the secondary government bond market, which was only introduced in September 2012 under a great deal of opposition. This is justified on the argument that buying debt instruments directly from the government in the primary markets is equivalent to monetary financing of the government budget deficit; an unacceptable occurrence in this view. It is important to note, though, that the lender of last resort, especially in the government bond market, is an essential tool for maintaining financial stability. No wonder Lagarde (2018) in a speech on 26 March 2018 urged the euro area leaders to set up a 'rainy day fund' to help cushion member countries in economic downturns.

A number of changes have been introduced as a result of the GFC and the GR, and the euro crisis, which are worth discussing. The most important ones are the following. The ECB pumped limited liquidity into commercial banks after the GFC; however, it raised its rate of interest twice before it started reducing it from 4.25 percent in September 2008 to an all-time low of 0.25 percent in November 2013. In May 2009 the ECB increased its credit support to euro area banks at very low interest rates through the introduction of the Long-Term Refinancing Operations (LTROs) scheme, which was designed to provide longer-term liquidity. From December 2011 to February 2012 the ECB provided €1trillion to the euro area banks.

In December 2010 the European Stability Mechanism (ESM) was established, the euro area's permanent bailout fund; and as a permanent firewall for the euro area. The ESM was designed as the permanent crisis resolution mechanism for the countries of the euro area with a maximum lending capacity of €500 billion. In fact the ESM in mid-2013 replaced the then existing European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM), whose functions were to handle money transfers and programme monitoring for the approved loans to the euro area countries. The Single Supervisory Mechanism (SSM) was introduced, 16 April 2014, to oversee all systemic banks in the euro area. It comprises the ECB and the national supervisory authorities of the participating countries. Its main aims are to: (i) ensure the safety and soundness of the European banking system; (ii) increase financial integration and stability; and (iii) ensure consistent supervision. The Single Resolution Mechanism (SRM) was also introduced, with the aim to orderly restructure a bank when it is failing or likely to fail. The SRM applies to banks covered by the SSM.

A number of decisions were taken at the 28/29 June 2012 European Union (EU) summit meeting. Banking licence for the ESM; this gives access to the ECB funding, and thus increase its firepower. Two further decisions were the banking supervision by the ECB, and a 'growth pact', which would involve issuing project bonds to finance infrastructure. Banking Union and a single euro area bank deposit guarantee scheme were two long-term decisions.[8] The introduction of euro bonds and euro bills were further decisions. Most important at the time was the announcement by the President of the ECB in July 2012 that the ECB would do 'whatever it takes' to save the euro. That statement by the ECB President was considered as a turning point in the euro crisis. The July 2012 statement was also confirmed by the ECB President after the ECB's rate-setting governing council meeting in 2014 (Thursday 9th of January).

Further steps were introduced in June 2014 by the ECB to counter deflation. Reduced its benchmark interest rate from 0.25 percent to 0.15 percent (reduced further to 0.05 percent in September 2014 and by June 2014 the rate became 0.00%); introduced a negative deposit rate, whereby the ECB would be charging commercial banks 0.1 percent (changed to 0.20 percent in September 2014 and to 0.4 percent in March 2016) on their deposits with it. In September 2014, the 'Targeted Long-Term Refinancing Operation' (TLTRO) was reinforced whereby the ECB would support bank lending to the euro area non-financial sector. Banks could borrow up to 7 percent of their loans to companies and individuals (exclusive of mortgages) in two tranches in September and December 2014 initially; additional operations were carried out in March, June, September and December 2015 and in March and June 2016. Banks could borrow for up to four years so long as they used the funds to lend to households and companies. It is the case that a total of

[8] A project is in place to strengthen the euro area banking system, which includes the plan for a banking union. However political negotiations on progressing on the banking union have entered a 'critical phase', which could lead the project unfinished for some time (as the Vice-President of the European Commission suggested, and reported in the Financial Times, 11 April, 2018).

400bn euros was injected into the banking system through five TLTRO auctions between September 2014 and September 2015. However, bank corporate lending grew over the same period by only just 4bn euros.

QE was eventually introduced in March 2015; and as stated above, negative interest rates had already been introduced. In fact, the ECB at its meeting on 22nd January 2015 decided to undertake QE; the ECB carried on to purchase euro area bonds and other safe financial assets, every month, starting in March 2015 and promised to continue until inflation is back to the ECB's inflation target. The ECB decided to continue its QE in 2018 (and the 60bn euros monthly was reduced to 30bn euros in early March, 2018, and with the ultra low interest rates unchanged). It is expected to probably and finally end the programme in December 2018, paving the way for a rise in interest rates in the first half of 2019. Whether the ECB QE has been successful is an interesting question. There is the argument that EMU banks, insurance groups and pension funds need the relevant QE assets to meet their capital requirements. So banks and other relevant financial institutions may not be persuaded to buy riskier assets, such as equities, to boost the economy – and this is desperately needed in the EMU area. There is also the argument that QE programmes increase inequality. It increases the value of the assets for the relevant holders, while it harms savers in view of the record low interest rates. These arguments raise the issue of whether the ECB has been successful in its monetary policy as discussed above. This aspect is further discussed in the section that follows.

A more recent ECB initiative concerns euro banks in terms of tackling their Non-Performing Loans (NPL). The rule that was imposed in January 2018 aims at requiring banks to hold collateral against loans that become non-performing (once their payment becomes 90 days overdue). This ECB action is entirely due to the fact that the health of the euro banks is a very worrying aspect. Non-performing loans prevent banks from lending to more productive borrowers. The level of NPL, in relation to total loans, is estimated to be 5.1% for the EU, compared to 1.3% in the US and 1.5% in Japan. The relevant consultative paper aroused strong criticism, including legal opinions from the European Parliament and the European Council. Both institutions stated that the ECB would overstep its mandate if the proposal was adopted in its current form. The ECB is in the process of reviewing the feedback received during the consultation period before the final text is issued.

HAVE THE EMU ECONOMIC POLICIES BEEN SUCCESSFUL?

The ECB managed to bypass a complete collapse of the financial system and the real EMU economies after the emergence of the GFC and GR and the euro crisis. It is the case, though, that ECB policies have not really been further successful as argued in what follows. The decline in inflation rates in the 1990s and early 2000s was mainly due to globalisation (Angeriz and Arestis 2008). And since the relevant crises, very low and negative interest rates along with QE have not produced sustainable recovery (Arestis 2018). It should be noted, though, that the euro area growth seems to be bouncing back. Growth was 1.7 percent in 2016, and 2.5 in 2017, with unemployment falling to 10.1 in June 2016 from 10.4 percent in February 2016; it also fell further to 9.6% in December 2016 (Eurostat, December 2016); and more recently, March 2018, it fell to 8.5% (The Economist 12 May, 2018). Still this is a high unemployment rate. It is the case that fiscal policy in advanced countries, including the euro area, has shifted from its austerity stage over the past few years, which has been helpful on this score. Inflation is expected to be 1.5% in 2018 (The Economist *op. cit.*); this is below the ECB's inflation target of 'close to 2% from below'.[9] In addition, there is little sign of wage growth, which is an important element in achieving economic health; employees have lost bargaining power in view of weaker trade unions. Proper wage policy is thereby urgently required. There is also a series of disappointing business surveys, and an unexpected third successive monthly fall in February (2018) of industrial production; also the euro area GDP growth is slowing unexpectedly (Financial

[9] The core measure of inflation, which does not include the cost of food and alcohol, and viewed by policymakers a better price measure, remained at 1% in February 2018, as reported by the Eurostat.

Times 14 and 18 April, 2018). In other words, ECB policies have not helped sustained stability and growth in the euro area. It is not surprising that the ECB President suggested that institutional reforms would be necessary, especially so in terms of more euro-area integration (Draghi 2016a, 2016b; see, also, IMF 2015).

Clearly our analysis demonstrates that there are serious problems with both the EMU fiscal and monetary policies. They have not acted as stabilising forces as had been expected by the policy makers. Orphanides (2017) suggests that both fiscal and monetary policies in the euro area have been very restrictive following the GFC, the GR and the euro crisis. Fiscal policy's weak response is due to the SGP/FC, with the required monetary policy failing in view of the ECB's unwillingness to support all its member countries in a similar manner. More seriously, though, these problems are rooted in the absence of economic integration, and as such, without a political union the EMU and the euro cannot have a good record of long-term survival.

A relevant recent proposal is the 'Five Presidents' report (European Commission 2015), where the most important item in the report is the creation of a Banking Union. The objectives of the Banking Union are to reduce financial risk and improve access to liquidity. Once the Banking Union is completed, a Capital Markets Union is to be launched for all the EMU members. However, in terms of fiscal policy the 'Five Presidents' report emphasises the importance of fiscal discipline, referring to 'responsible budgetary policies'. It is recommended that "Responsible national fiscal policies are therefore essential. They must perform a double function: guaranteeing that public debt is sustainable and ensuring that fiscal automatic stabilisers can operate to cushion country-specific economic shocks" (European Commission 2015: 15). More important, though, is the suggestion that "The Stability and Growth Pact remains the anchor for fiscal stability and confidence in the respect of our fiscal rules" (European Commission *op. cit.*: 18).[10]

Although the focus of the 'Five Presidents' Report' is "on the need to promote real convergence, it is far from achieving economic or indeed political integration. As such, the proposed changes are rather cosmetic ones, although the extent to which banking union is achieved is a way forward" (Arestis 2016: 36). It is also the case that obsession with rules rather than with proper discretion does not help. Especially so under the current arrangements whereby the euro area's closest federal institution, the ECB, and in the absence of political integration, is exposed to each of the 19 member countries of the EMU political pressures. This dimension makes the EMU a fragile institution. Interestingly enough, Lagarde (2018) also calls for a 'modernised capital union', an improved banking union, and a firm move towards greater fiscal integration. All these, according to Lagarde (*op. cit*.), require improving "the euro area architecture" and building "a stronger economic union in the days ahead". It is also important to note the importance of introducing a deposit insurance scheme, whereby bank deposits would be protected. Such a scheme would be funded by all the euro area banks, which would reduce pro-cyclical runs on weak banks or on banks in fiscally weak countries.

SUMMARY AND CONCLUSIONS

The euro area has had economic problems since its inception, which have become even more serious more recently, especially since the recent crises. The design of the euro area project and subsequent amendments contained a number of faults, as argued in this contribution. Clearly, then, significant, fundamental and indeed urgent changes are desperately needed so that the euro area can become a proper economic and political union.

[10] The European Commission proposes (available at: http://europa.eu/rapid/press-release_IP-17-5005_en.htm) a deeper euro-area integration by creating a finance ministry and euro-budget; also turning the ESM into a European Monetary Fund, which would be a kind of embryonic treasury for the euro area.

We have argued in this contribution that political integration is paramount (see, also, Arestis and Sawyer 2006a, 2006b, 2006c, 2012). The requirement for effective political union is to have in place proper monetary and fiscal policies. Political integration is very important for it provides both monetary and fiscal possibilities, which enable coordination of taxation and spending throughout the EMU, along with monetary and financial stability policies, as well as appropriate wage policies. Such union would allow the EMU to spread risk across its area and eliminate uneven booms and busts in different regions. Under such arrangements the ECB single interest rate would never be inappropriate for any one country; clearly this is not the case under current arrangements. Banking union is another relevant aspect to which attention should be paid.[11] Especially so, as Berger *et al*. (2018) suggest, in view of the absence of a fiscal union, which contains serious current dangers of not allowing sovereign debt to be restructured without threatening the local banking systems. In this sense the EMU is incomplete without banking union; but this would not be enough. Fiscal union is also required, which is the most efficient way against economic risks (see, also, Berger *et al*. 2018). Although the euro area is experiencing some recovery, it still remains vulnerable to shocks and future financial crises. Proper economic and political integration is thereby and desperately needed to avoid these risks. Without it the euro area continues to face serious risks that policymakers should not ignore. For if they ignore them the euro might be doomed at the end of the day.

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[11] The 19 euro area states intend to complete the banking union in 2018. A capital market union is also important to be considered in this respect (see, however, footnote 6). Not to repeat the importance of fiscal union.

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