

RISK-SHARING MECHANISMS FOR THE EUROPEAN UNION

- Open issues and further questions -

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ADEMU Working Group at EUI - our story and purpose

- ▶ The Working Group was set up in September 2015
- ▶ It comprises 25 researchers, post-docs and professors who
 - ▶ work on topics related to the European Monetary Union
 - ▶ apply academic methods to address policy relevant questions
 - ▶ emphasize a cross-disciplinary approach
- ▶ The aim of our meetings (20 so far) is to
 - ▶ find ideas for research projects
 - ▶ identify puzzles and gaps in the literature
 - ▶ inform each other about new (and old) research findings
 - ▶ discuss policy proposals and develop our own view

Our questions on some current policy debates

- ▶ **Public versus private risk sharing**
 - ▶ Estimates from the US of the two channels vary considerably
 - ▶ Are public and private risk sharing really independent?
 - ▶ Can the Banking Union alone actually increase risk sharing?

- ▶ **The ECB's role and risk sharing**
 - ▶ With a larger degree of risk sharing across Eurozone member states, does the ECB still have to pursue unconventional policies to the same extent?
 - ▶ Is insufficient risk sharing a limitation to effective monetary policy transmission?

Our thoughts on risk sharing theories and the EMU

▶ **Pre-conditions for risk sharing**

- ▶ Five Presidents' Report: more convergence first, risk sharing institutions second
- ▶ Is this condition really necessary?
- ▶ Does it only apply to public risk sharing?

▶ **Limits of risk sharing: willingness versus ability**

- ▶ Committing to sharing risks requires trust (moral hazard) and a track record of administrative competence (adverse selection)
- ▶ Some EMU governments seem unable to collect resources from their citizen due to a lack of administrative capacity
- ▶ How can they credibly make unconditional promises to non-citizens?

Our view on the way forward

- ▶ **Public risk sharing through debt or budgets**
 - ▶ At the moment, national deficits absorb common and idiosyncratic shocks
 - ▶ We have to go from intertemporal to cross-country risk sharing
- ▶ **How?**
 - ▶ Schäuble's proposal: levy a gasoline tax to finance the refugee crisis at EMU level
 - ▶ Do we have choices other than a joint fiscal capacity (and common unemployment insurance)?
 - ▶ GDP-linked bonds?
 - ▶ Still debt but some risk sharing
 - ▶ Sharing risks related to pension and health care liabilities?
 - ▶ Common problem but potential gains due to heterogeneity