

European Stability Mechanism: the path to reform

Giorgio Monti, European University Institute, email: giorgio.monti@eui.eu

Objectives

- To evaluate the current functioning and design of the European Stability Mechanism (ESM)
- To provide a critical assessment of the proposals for reform

While the European Stability Mechanism can be credited for having played a vital role in safeguarding the financial stability of the euro area and of its member states, thus discharging its mandate (Article 12 (1) ESM Treaty), its design and operation have not escaped criticism. First, as an international treaty, it lacks the usual accountability channels found in EU law, for example by-passing the European Parliament. Second, the conditions attached to its loans attracted criticism for harming fundamental rights of EU nationals and eroding national democracies. Third, its governance structure gave large member states blocking votes, causing resentment about its operation. Finally, the link with the IMF caused some friction with the EU institutions.

Post-crisis, how should the ESM be redesigned to ensure continued stability for the euro area? In the further reading association with this policy brief, I start by contrasting two ambitious positions on the design of the European Stability Fund that emerge from the member states. I then contrast these with the timid institutional proposals of the Commission and close by suggesting that retaining the ESM as an international treaty allows for a quicker process for achieving meaningful reforms.

Further reading

To read the full paper which accompanies this policy brief, see chapter ten (pages 93-97) of the ADEMU e-book published by VoxEU.org:

www.voxeu.org/The-emu-after-the-crisis

You can see a short video summary of this topic by the author at:

www.ademu-project.eu/ademu-explained-the-european-stability-mechanism-the-path-to-reform-video-with-giorgio-monti

This topic also relates to the following policy briefs:

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There are 25 working papers related to this topic. See the full list:

www.ademu-project.eu/ademu-working-papers-related-to-work-package-4

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