

The political and institutional aspects of further EMU area integration

Completing EMU : the political pillar

European Economic and Social Committee

Section for EMU and Economic and Social Cohesion (ECO)

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What is ELEC

- International non profit association founded in 1946 in Brussels : one of the oldest components of the European Movement
- Acts in complete independence
- A network of European economic decision makers of good will
- A forum and advocacy group promoting and putting timely intellectual pressure on European decision makers to further economic integration within Europe
- Contributing ideas to the creation and completion of the single market, including the integration of financial markets
- 12 national committees and four active sectoral commissions

Conditions for a sustainable EMU

- Monetary pillar
- *Fiscal pillar*
- *Economic pillar*
- *Financial pillar*



What ELEC recommended in February 2014 : Completing the EMU requires

- Deepening the single market , following the recommendations of the Monti Report
- Economic Union, at least a reinforced integrated economic policy framework, with both macro-economic and structural components
- Elements of Fiscal Union
- Banking Union
- Political Union , underpinned by a vibrant civil society, including social partners, a genuine vision of the future and a stronger sense of European identity

More specifically as concerns Political Union

- Overarching principle: « to ensure democratic legitimacy and accountability at the level at which decisions are taken »
- Need for more democratic accountability at the euro-zone level : real debates about national economic and social policies not only in the Council of Ministers but also in the national and European Parliaments with a close association of civil society, including social partners in the European Economic and Social Committee .
- Reinforce sense of sharing a common destiny through new dimensions such as European defence, foster greater awareness of European identity, promote European patriotism, use debates towards European Parliament elections to define a clearer vision of our common future.

Further work on the institutional and political aspects of EMU is indeed necessary

- « The euro area has not recovered from the crisis in the same way as the U.S. , which might point to the fact that an incomplete monetary union adjusts much slower than one with a more complete institutional setup in place »

Jean-Claude Juncker in Analytical Note of 12 February 2015 « **Preparing for Next Steps on Better Economic Governance in the Euro Area** »

EESC Proposal in brief

- Anchor EMU more solidly and sustainably in a better designed political and institutional framework
- Greater mutual solidarity among EU countries
- Profound structural adjustments in the MS
- Apply Community method
- New fiscal instruments in the € area
- Invite Commission in national debates on European issues
- Background : progress of EMU in some directions (e.g. Banking Union), bold initiatives of the ECB but stagnation of institutional debate in economic, fiscal and social areas.

EESC demands as regards financial and economic pillar

- Assessment of progress towards Banking Union and steps towards Capital Markets Union
- EU response to country-specific asymmetric shocks and introduction of a Convergence and Competitiveness Instrument (CCI) providing for economic reform contracts between the EU institutions and the MS and associated solidarity mechanisms.
- Ex ante coordination of plans for major economic policy reforms in the MS
- Unified external representation of the euro area in the IMF
- Roadmap for the introduction of an instrument for joint debt issuance by euro area MS.
- Own budget of euro area

EESC demands as regards the political pillar

- Institutionalise the eurogroup and its president with actions of the Eurogroup scrutinised by members of the EP from the euro area
- New European Convention : launch process of reflection on deepening the EU institutional set up and selecting policies that ought to be shared.
- Communication and simplification strategy, particularly in the field of EMU, to involve national decision makers, political parties and civil society.
- Fully involve the institutional representatives of organised civil society in initiatives for further EMU integration

Proposals of Van Rompuy Roadmap in areas of democratic legitimacy and accountability

- Democratic control and accountability at the level at which decisions are taken.
- Involvement of EP as regards accountability for decisions taken at EU level while maintaining pivotal role of national parliaments, as appropriate
- This holds true for 1) Banking Union; 2) proposed contracts between EU institutions and MS; 3) creation of a new fiscal capacity; 4) rapid executive decisions in times of crisis; and 5) unified external representation of the euro area
- A shared sense of purpose among MS, a high degree of social cohesion, a strong participation of the European and national parliaments and a renewed dialogue with social partners

Proposals in Juncker's Analytical Note

- Move gradually towards « concrete mechanisms for stronger economic policy coordination, convergence and solidarity »
- In the short run, « virtuous triangle » of structural reforms, investment and fiscal responsibility and move towards more effective commitments to **growth enhancing structural reforms in the euro area.**
- Improving functioning of the **Single Market** : enhancing labour mobility, Capital Markets Union, digital economy, Energy Union, etc.
- Develop a **long-term perspective on how the framework of EMU should develop** : further work necessary to develop a stronger governance

A few positive steps

- Establishment of European Fund for Strategic Investment (EFSI) underway
- Commission decision on flexibility in interpreting fiscal rules
- Formal proposals on Energy Union and Capital Markets Union
- ECB introduction of new asset purchase program (QE)

But

- Political tensions, e.g. Greek crisis and internal situation in France, make it difficult to embark on ambitious reform process
- Preference for legislative approach that would not require Treaty change.
- Stronger procedure would be required to monitor collective « fiscal stance » of Euro area.
- Macroeconomic Imbalances Procedure should be reviewed and applied as strongly on surplus as on deficit countries
- Need to reform EU budget to endow EU with « own resources » to use for countercyclical purposes.

Signs of greater aweness of need to move

- “Today, the world is looking for new forms of governance. It is looking to further develop the nation-state system. **No nation state can solve the major problems and challenges of our time by itself. The sovereignty principle which has been developed since the Peace of Westphalia does not guarantee enough stability.** National regulatory monopolies and bans on intervention are no longer enough in our globally interdependent world. **That applies to the internet as much as it does to the economy and financial markets.** It also applies to universal human rights and to peace and stability”. (Wolfgang Schäuble, “The State of Europe - What governance is needed in the European Union?” - 27 May 2014)

Greater awareness

- “In sum, my conclusion is that there must be a quantum leap in institutional convergence. We need to move from a system of rules and guidelines for national economic policy making, to a system of further sovereignty sharing within common institutions. And as part of this process we need to strengthen the democratic accountability of Europe towards its citizens, which would automatically deepen our political union” (Mario Draghi -16 March 2015)

Political Union is however not necessarily a guarantee of good policies

- See William R. White (former BIS economic adviser) : « Could False Beliefs Threaten the Future of the Eurozone ? » (Chapter proposed for inclusion in the forthcoming book « The Political Economy of the Eurozone » Cambridge University Press

Six False Beliefs according to W.R. White

- Current account imbalances are not a source of concern within an immutable currency union.
- In avoiding and managing problems in a currency union, only borrowers need to modify their behaviour.
- Pursuing price stability in the Eurozone anchors the whole system
- Fiscal excess caused the crisis and fiscal austerity is the solution
- Cross burden sharing must be avoided.
- Actions taken by the ECB will suffice to maintain confidence in the integrity of the Eurozone

Let us not lose sight of
the global trends and
the longer term
challenges ahead

2030

Global Trends to 2030: Can the EU
meet the challenges ahead?

