III

*(Preparatory acts)*

# EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

## 490TH PLENARY SESSION HELD ON 22 AND 23 MAY 2013

## Opinion of the European Economic and Social Committee on the ‘Communication from the Commission — A blueprint for a deep and genuine EMU: launching a European debate’

*COM(2012) 777/2 final*

(2013/C 271/04)

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On 19 February 2013 the European Commission decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, on the

*Communication from the Commission – A blueprint for a deep and genuine EMU: Launching a European debate*

COM(2012) 777/2 final.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee’s work on the subject, adopted its opinion on 24 April 2013.

At its 490th plenary session, held on 22 and 23 May 2013 (meeting of 22 May), the European Economic and Social Committee adopted the following opinion by 149 votes to 12 with 25 abstentions.

1. **Conclusions and proposals**

1.1 The Commission communication makes a major contribution to the launch of a very necessary debate on the EU and represents considerable progress on past endeavours in the area of EMU in terms of both method and content. In addition, for the first time it addresses the EU’s international role and political future. The EESC therefore welcomes the proposal, which may prove a historic turning point provided that the Council, after 20 years, finally musters the courage and the will to adopt and put into effect the provisions that will help to achieve the stated objectives and to implement the proposal swiftly.

1.2 With the decisions taken over 2011 and 2012, the European Council has launched a key, coordinated reform of European governance concerning surveillance of excessive macroeconomic imbalances, the tightening of budget rules and coordination of the euro area countries’ economic policies. Unconventional measures for ‘conditional but unlimited’ purchase of government bonds from countries in difficulty, recently decided on by the ECB, the establishment of the Single Supervisory Mechanism, intended to provide stringent, impartial prudential supervision and to cut the tie between States and banks, and the resolution rules for banks are necessary tools in securing EMU stability.

1.3 The EESC supports the strategy for strengthening the euro area set out in the Commission communication and recently reiterated by the President of the European Council, Mr Van Rompuy. However, it feels that the strategy is not sufficient to ensure that Member States, citizens and businesses reap the full benefits of EMU, as the events of the past 10 years have shown. The Council has political responsibilities going back to the Maastricht Treaty that severely **limited** the EMU created. That is why the Commission now put forward a Blueprint for a **deep and genuine EMU.**

1.4 In order to be able to give EMU greater stability and ensure economic and employment growth in the euro area countries, more incisive measures such as a growth plan and bolder economic integration mechanisms are needed, starting right now rather than in the medium-to-long term, and they must be implemented simultaneously by the Council. What is needed, in other words, is a mix of macro- and microeconomic policies, a strong commitment, a sense of solidarity, trust and belonging among Member States and between the Member States and the EU, not forgetting that the primary goal of the measures being discussed must be to benefit all the people.

1.5 While the EESC welcomes the communication, it notes that, even if everything were to be made operational, any substantial effects would be unlikely, particularly as regards the decision-making method, as there is no tangible proposal on political union to give the euro a home. The same applies to debt, coping with asymmetric shocks, growth, competitiveness and employment (where impact studies should be systematic). These are all limitations in the present situation.

1.6 The EESC points out that it has already drawn up opinions and recommended solutions regarding most of the Commission's current proposals, particularly those relating to the limitations of EMU, the ECB, growth and sovereign debt ([1]). The steps forward taken by the Commission and the Council thus far are a good basis for pursuing the work in this area. Therefore, the EESC welcomes the fact that the Commission has decided to give guidance for the future on these issues, and hopes that this will prove the right time for the Council to take swift, tangible measures on debt and growth, thus achieving a genuine qualitative leap.

1.7 Whereas the most recent decisions taken by the EU, referred to in the communication, are – albeit only partially – appropriate for the macroeconomic framework, the microeconomic proposals regarding the production sectors, which are the only sectors that can relaunch growth, are inadequate. The Commission document seeks to open a debate on EMU, an issue that goes far beyond fiscal consolidation and macroeconomic policies. Microeconomic policies are also needed, such as, for example, a genuine industrial compact.

1.8 Moreover, the Commission proposal would receive a more resounding endorsement if, in the various phases set out for launching the measures needed to make EMU more stable and efficient, more explicit references were made to the need to pursue European policies that are in line with this aim, defining the envisaged areas for action and the new elements to be introduced to make European spending more streamlined and effective as well.

1.9 The Commission can and must help implement the reforms that are essential to increase the competitiveness of national production and administrative systems, adopting innovative criteria and methods for intervention in the area of the single market, Structural Fund management and the principal common policies. Moreover, it should take its cue from the innovations introduced by the ECB and propose equally substantial changes – as repeatedly called for by the EESC – to the implementation of the European policies that most affect the EU's most vulnerable areas, regions and sectors.

1.10 As regards the ECB, full use must be made of its structure to boost growth and employment and its role as lender of last resort. A demonstration that the euro area countries were intent on taking this path would help consolidate faith in the ECB and the euro and combat speculative attacks, particularly when it comes to those countries with the greatest budgetary difficulties.

1.11 The stability of the euro cannot be entrusted solely to the ECB and common monetary policy, leaving the Member States completely free to conduct their fiscal and budgetary policies. The EESC believes that **fiscal union with a view to a single euro area budget** cannot, as envisaged in the communication, be postponed to the longer term but must, along with the single currency and single banking supervision, become the other pillar on which to build EMU stability in the short and medium term, thus reassuring the markets of the coherence of the European project.

1.12 With regard to the **institutional proposals**, the Commission is making a considerable effort. The EESC believes it is useful that institutional considerations are on the agenda at last, as they underpin the Commission's innovative proposals, including political union; a completely new proposal. However, it feels that most of the proposals are rooted in the current framework, making very limited progress, and will therefore fail to resolve anything if the Council does not go further and treats the proposals simply as pointers for action.

([1]) OJ C 143, 22.5.2012, p. 10.

1.13 They may constitute another intermediate stage, but, on the basis of what has already been proposed and approved, the EESC, which should be a part of this process, considers that the time for half-way measures on certain matters has passed and it is now time for a qualitative leap in terms of both policy content and the decision-making process for implementing these policies, with no more pretence so that the constant refrain that 'genuine' policies, 'genuine EMU', 'genuine' political union, etc. are needed does not strike up again afterwards. **Action** must be taken **now**, more resolutely and swiftly, both to **halt the recession** that has struck a large part of the EU and to fill the gaps that have been left unattended to for some time and which the international financial crisis has simply blown apart.

1.14 The EESC calls on the Council, taking its cue from the Commission proposals, to act more boldly and clearly in terms of respect for the agreements reached and of responsibilities to advance proposals to be adopted and implemented, more specifically, extending majority voting to all subject areas, starting with economic and employment policy, with a view to amending the Treaty.

1.15 Gist of the EESC proposals

1.15.1 Therefore, to achieve genuine EMU, the EESC believes it necessary in the immediate term (without amending the Treaty) to:

— launch a European growth initiative, as austerity alone will not suffice to meet any of the criteria set by the EU;

— introduce a convergence instrument to ensure solidarity and help overcome the economic asymmetries between countries. Micro-level measures could be taken to help the countries worst affected by the crisis, to reduce youth unemployment (e.g. giving an EU contribution for each young person hired), in other words introducing positive conditionality;

— implement a solution to the debt issue, as called for by the Commission itself and the EESC, to address the problems facing all the countries that have adopted or will adopt the euro;

— rapidly implement banking union and European supervision;

— complete the single market in all sectors (fiscal, financial, banking, energy, services, research and innovation, etc.)

— reduce the fragmentation of the credit market in order to ensure a level playing field where the cost of credit is the same in all Member States.

1.15.2 In the medium and/or long terms, possibly with changes to the Treaty, it is necessary to:

— establish genuine EU economic governance alongside monetary, financial and fiscal governance, not least in order to ensure greater consistency between EU and state policies;

— complete the mandate of the ECB;

— strengthen the decision-making method and structures by forming a single entity in order to provide governance for the euro, complete and unify the current system and implement fiscal union, starting by creating a joint euro area budget and also introducing a solidarity mechanism to reduce economic imbalances between countries;

— implement a social compact for social union, involving the social partners and organised civil society;

— establish political union on the basis of enhanced cooperation, not least so as to enable the euro to speak with one voice, and establish a more democratic, transparent decision-making process. It might be useful to this end to give the next EP constituent powers along with the Council;

— give the EU a more representative role in international bodies.

## 2. **General comments: key points**

2.1 The Committee is aware that we are discussing one of the most complicated issues of the day. Europe is entering a new phase of closer integration and this entails a number of courageous steps. The EESC greatly welcomes the launch of a debate on the future of EMU as a first step in this direction and points out that the macroeconomic reality in the EMU is a result of microeconomic decisions. Macroeconomic and microeconomic policies should therefore be aligned towards achieving the same overall objectives.

2.2 Article 9 of the Treaty on the Functioning of the European Union, supplemented by Articles 151 and 153, essentially state that in defining its policies and activities the EU must take into account promotion of a high level of employment, improvement of living and working conditions and the fight against exclusion. The EESC is surprised to note that none of these requirements are addressed by the communication in question as being part of the goal of a 'deep and genuine Economic and Monetary Union'. In addition to calling for explicit reference to these objectives, the EESC advocates greater monitoring (impact analyses) of the effects of economic and monetary policies on social situations and the labour market and measures to eliminate their potentially harmful economic and social consequences.

2.3 None of the Commission's proposals for more stable, credible EMU can actually come to fruition (in either the short or medium-long terms) unless the Member States, particularly the countries worst affected by the economic and financial crisis, start to experience growth once more, to find a solution to the issues of employment and unemployment (which is rising sharply, especially among young people) and to reduce the perennial disparities between countries. Equally, however, nothing will be achieved if the Council and the Eurogroup do not take on board the Commission's suggestions and progress with the reforms necessary to complete EMU, which have been due for 20 years, and if the Member States do not make every effort to achieve this aim and manage part of each country's sovereignty together, as is necessary to this end.

2.4 The Commission's main concern is to ensure coordination of the member countries' economic policies by means of a coordinated series of measures and instruments to increase convergence between budgetary policies and supervisory systems. This should serve to alleviate the most indebted countries' difficulties in financing public debt and complying with the rigorous plans for debt reduction and sustainability proposed by the Commission and recently approved by the member countries (Fiscal Compact). However, to restore the confidence of the public and the markets, the measures taken at national level must fit in with a common, European approach and produce tangible, positive effects for people and businesses; this means greater consistency between national-level macroeconomic policies and microeconomic policies (young people, labour market, social security, etc.).

2.5 A large number of the euro area countries have entered their fifth year of negative growth and the forecasts for the coming years predict only very slight improvements in terms of the principal macrovariables. The Commission's proposals on strengthening EMU call for other comments and/or measures if they are to be credible and form the basis of a large-scale, consensual debate on the future of EMU involving not just experts but the whole of European civil society.

2.6 In accordance with the commitments they have made with the EU, the euro area countries must continue with tough budgetary policies over the coming years, which could primarily be achieved through reforms aimed at streamlining the structure of national budgets, in terms both of spending and of public revenue, with all due regard for fair distribution and the effects of fiscal multipliers. That would allow budget-neutral efficiency gains without cuts being made in sectors where expenditure is essential for economic growth and social welfare such as health, social security systems, education, research and innovation, and infrastructure ([2]).

2.7 These national measures need to go hand in hand with European measures necessary for economic growth, employment and investment recovery such as: improving the operation of the national labour markets with a view to integrating them within the euro area, including through macroeconomic dialogue ([3]), partial mutualisation of public debt in order to curb speculation, the issuing of euro bonds by the EIB and the EIF to finance growth and attract global savings surpluses ([4]), the possibility of excluding from public debt certain structural investments necessary to set a virtuous growth cycle in motion, and, lastly, greater focus on industrial policy by both national governments and European policymakers.

2.8 Responsibility for implementing these policies lies with the Member States' governments, but, by virtue of its institutional prerogatives and its role managing EU budgetary resources, the Commission must ensure that they are implemented, thus helping to limit the disparities and imbalances that are still present between the various regions.

2.9 Moreover, the EESC would point out that the Commission's analysis of the historical aspects of EMU does not raise the genuine economic and political limitations that were inherent when the euro was created and that are the main cause of the crisis affecting the euro and the EU. It is equally strange for an EMU analysis not to mention or evaluate the Maastricht criteria, the 'singleness' of the monetary policy or the economic asymmetries between the countries concerned. Furthermore, it seems untenable to blame the 2008 crisis entirely on debt rather than on the political weakness of the

([2]) OJ C 133, 9.5.2013, p. 44.
([3]) Idem.
([4]) See footnote 1.

EU and the national governments, particularly considering that right from the start of EMU the Member States have systematically refused to launch a debate on coordination of fiscal and budgetary policies.

2.10 There is a pressing need to achieve economic union with EU economic governance (together with or prior to a banking union, etc.) and the Commission communication lays the foundations for this.

## 3. Specific comments on the content of the proposal: strong and weak points

3.1 **In the <u>short term</u>**, seven proposals are considered and described, some of which are not new as they refer to measures recently approved by the EU on the European semester, the 'six-pack' and 'two-pack' and ECB banking supervision. These are all major steps forward, which must be fully implemented in line with the relevant European legislation and country-specific recommendations adopted by the Council. The Commission proposals that the EESC considers to be most promising are the following.

3.1.1 The first is the introduction, following the Single Supervisory Mechanism (SSM), of a Single Resolution Mechanism (SRM) to solve the problems of banks in difficulty. The most innovative aspect here is that resolution costs are covered by shareholders and creditors; any 'additional resources needed to finance the restructuring process' are to be provided by the banking sector itself and no longer by the taxpayer ([5]).

3.1.2 The second is the introduction of a **convergence and competitiveness instrument** to support the implementation of structural reforms in euro area countries. This proposal gives a highly detailed description (Annex I to the communication) of the prescribed procedure for activating and complying with the arrangements underpinning this instrument. The degree of participation and the amount of financial support that member countries could receive is left unspecified. The latter are both decisive elements for ensuring the instrument's sustainability; the Commission does, however, reserve the right to issue a more detailed proposal on the implementing arrangements (page 25 of the communication). The EESC believes that this instrument should precede, or at least accompany, the structural reforms in order to temper their negative impact. In addition, the EESC stresses that the Convergence and Competitiveness Instrument can only be effective if, little by little, it is used in coordination with national measures and initiatives.

3.1.3 Moreover, the proposal on the Multiannual Financial Framework seems to be perceived as a punishment for those who do not comply with the 'agreements between the Member States and the Commission' rather than as an incentive for implementing European policies. The tough macro-economic conditions to which the Member States are made subject should be accompanied by a plan for growth and development of new job opportunities, particularly for young people, drawn up with the active involvement of the social partners and civil society players.

3.1.4 A more incisive role for the EU and the euro in the governance of international monetary bodies and the need to strengthen the euro's external representation capacity are two of the most important points raised by the Commission, as well as by numerous EESC opinions, to give the EU and the single currency more decision-making power and clout in international monetary governance. However, the Commission fails to spell out the difficulties of the proposal, both within and outside the euro area, given the clearly unfavourable attitude of the US (and also the UK) administrations towards an increase in the euro's weight (and corresponding fall in the weight of the dollar) and the differences that continue to remain between euro area countries as regards defending specific economic and political interests in many developing countries assisted by the IMF.

3.2 In the **<u>medium term</u>**, the proposals concern mainly the establishment of a redemption fund, subject to strict conditionality in order to limit moral hazard, and the creation of a new sovereign debt instrument for the euro area (eurobills). These proposals have been part of the debate between the principal EU institutions and the Member States for some time. In its opinions the EESC, too, has repeatedly stressed the need to employ European bonds to partially mutualise debt (Union bonds) as an additional instrument, both to make it easier in the euro area for the most indebted countries to have recourse to sovereign debt financing and to reduce the costs of debt servicing ([6]).

3.2.1 Although it can see the merits of the German Council of Economic Experts' proposal included in the Commission document, the EESC would therefore have preferred the Commission to have put forward its own proposal and/or referred to the EESC's previous proposals or to those of EU economic affairs ministers or others.

([5]) OJ C 44, 15.2.2013, p. 68.

([6]) OJ C 299, 4.10.2012, p. 60.

3.2.2 In any case, the emphasis placed on the redemption fund overlooks the fact that the success of sovereign debt reduction policy depends here to a large extent not just on progress made in reducing public spending but, first and foremost, on increasing revenue. This is the right path to take, and for much longer than the medium term, to bring the debt/GDP ratio back down below the Maastricht threshold. The best proposal may still be to introduce Union bonds, as the Committee has already illustrated in detail [7]. Clearly, however, the problem is not what technical instrument to use but rather what solution to apply.

3.2.3 In addition, the proposal as a whole follows the rationale of the Stability Pact in terms of Member States' obligations, but fails to introduce any new element that would signify a change in the focus of these policies, which can no longer continue in the same direction.

3.3 As to the **longer term**, which is covered less fully in the Commission document, EMU is envisaged as evolving towards the completion of banking, fiscal and economic union. These are certainly goals which the EESC supports, provided that the arrangements necessary for their achievement are defined. The EESC agrees that full integration of Member States' economic policies must be achieved, particularly as regards fiscal and economic measures, along with a single EU budget with its own financial resources and autonomous fiscal capacity.

3.3.1 With regard to the institutional aspects, the communication confines itself to describing them, identifying the foundations on which it will be possible to build an Economic and Monetary Union that is stronger in terms of its legal framework and governance of the main economic policies, while making no mention of the macro- and microeconomic conditions required to secure the long-term viability of the proposals.

3.3.2 The EESC believes that with such an ambitious goal success can be achieved by implementing reinforced cooperation with the aim of moving towards political union. This process could be facilitated if the partially-implemented reforms in the international macroeconomic context concerning operating rules for the credit and financial markets, macro- and microprudential supervisory mechanisms and a reduction in the macroeconomic imbalances (starting with the US' deficits and China's surpluses) that have exacerbated the financial crisis were to be completed. Without considerable progress of this kind further economic and financial crises will be hard to prevent.

4. **Political union**

4.1 *General principles:*

4.1.1 The EESC welcomes the Commission's attempt to address the EU's current democratic deficit, as well as the idea that the main problem is the transfer of sovereignty. It is thus launching a process to achieve political union whereby certain 'sovereign' policies that have remained the responsibility of the individual Member States are brought together and managed jointly by means of a more transparent, democratic decision-making process, in order to provide the euro with a single voice and European governance. This is EMU's missing link.

4.1.2 In this regard, the EESC believes that:

— in the short term, it is not necessary to amend the Treaty, as the EESC has clearly explained in its proposals, and so it would be better to focus efforts on long-term proposals;

— it is true to say that the problem is more serious for the euro area, with regard to which it is completely inappropriate to continue to talk of economic policy 'coordination', but rather of common macro- and microeconomic policies, as in the case of banking union, common European-level surveillance, monetary policy, etc.

4.1.3 The issue therefore lies not in the difficulties of involving the European Parliament, but rather in establishing a common decision-making process for the euro area countries and involving the EP in relation to this. What is no longer acceptable is to maintain independent economic and industrial policies for each country alongside a common monetary policy that penalises the weakest countries' economies and lacks compensatory mechanisms.

4.2 *Optimising responsibilities*

4.2.1 The EESC is in favour of involving the EP in the discussion on the proposals for growth, as well as the national parliaments. They should also be consulted and not just 'informed' on the adjustment programmes. We are still, however, in the realm of artificial formalities, a far cry from the way the EU decision-making process ought to be conducted.

4.2.2 On the other hand, the proposals on the political parties are innovative, stating that they should become European in more than just name and act accordingly as single European structures rather than as the sum of so many national bodies, acting in line with the individual Member States or other associations (trade unions, employers associations, etc.).

[7] Idem.

4.2.3 It would be advisable for not just the parties, as proposed by the Commission, but also the other major European organisations (such as trade unions, employers' associations, etc.) of the euro area at least, to get themselves organised and adopt a common, European rather than national approach with a view to the 2014 elections. This would be a considerable step forwards, although not enough. In any case it would set a good example for all to follow.

4.2.4 It will be necessary, come the elections, to give the EP constituent power which would enable it (along with the Council) to provide for the transition to political union within a set timeframe, extending majority voting to all areas and giving the European Parliament the right to vote on growth and jobs as well.

4.3 *Questions that arise if the Treaty is changed*

4.3.1 The EESC is in favour of merging and unifying economic policies with employment policies, which are two sides of the same coin, although this is an economic rather than a legal issue. On the other hand, a joint decision-making process for all economic policies is needed, bringing together the Europe 2020 strategy, coordination of national budgets, macro- and microeconomic policies, euro area labour market policies, etc. in order to go beyond the current decision-making system. It will take more than the establishment of a special EP committee to transform EMU.

4.3.2 Moreover, it is clouding the issue to suggest that giving the Commission vice-president responsible for economic and monetary affairs the power to coordinate EMU, even together with the EP, could improve the current situation. The example of foreign policy should suffice to illustrate this. Genuine authority should, therefore, be give to the commissioner or possibly a minister.

4.3.3 Such a key issue cannot be resolved through artificial legal and parliamentary formalities if a decision is not first taken to transfer sovereignty in matters of economic, monetary and employment policy from national to European level, as the EESC has repeatedly suggested. 'Economic governance' of the euro area should be established, managed by the Euro Group with decision-making power and majority voting, together with the EP, with the appropriate changes to the Treaty, to be made at once, with the same urgency with which the Fiscal Compact was launched or the banking union addressed, etc. This would make it possible to establish a single market for economic, industrial, growth and employment policies, with countries forming a common vision and taking mutually-supportive decisions in the interests of EU citizens.

4.4 *EU external representation*

4.4.1 The EESC welcomes all the proposals on external representation of the euro area. This is a key point of the communication, given the international repercussions of the crisis and the relationship between currencies. At present the euro is like a sheep among wolves. The strategy outlined by the Commission to consolidate the euro area's presence in the IMF consists initially of giving it observer status and only subsequently requesting a single seat. This will take too long, to the detriment of the euro area, which should be given a single voice within the various bodies without delay, as the EESC has been pointing out for some time. Thus, the Commission's proposals may be realistic but they are also hesitant and insufficient in the short-to-medium term. Here, too, everything will hang on what the Council does.

4.5 *ECB*

4.5.1 The approach taken to the ECB is inadequate. Furthermore, the EESC disagrees with the statement that the Treaty must 'strengthen democratic accountability' of the ECB, as the ECB is a body where decisions are already taken by majority voting (unlike the Council). In addition, the problems and role of the ECB are of a different nature and supervision cannot be taken in isolation as the Commission communication seems to suggest. Issues include the extension of its remit to include growth and jobs, along with stability and inflation.

4.5.2 To this end, care must also be taken to ensure that the mechanisms for conveying the ECB's policies to the real economy work properly. The recent, unconventional measures taken by the ECB to make these mechanisms more effective, consisting of both injecting liquidity into the banking system (the CBPP and LTRO programmes) and buying government bonds on the secondary market (the SMP and OMT programmes), can be seen as an initial step in the right direction, but they do not as yet amount to the ECB acting as lender of last resort, able to take its own decisions autonomously where necessary, which (as all are aware) would require a Treaty change.

4.5.3 The decision-making autonomy of the ECB and the instruments it can use to act in its role of lender of last resort need to be strengthened, not in order to increase Member States' or the EU's indebtedness but to give the euro greater credibility and curb the speculative attacks on the sovereign debt of the most indebted countries. The EESC points out, with particular reference to the impact of ECB interventions on the sustainability of public debt, that the mere announcement of this manoeuvre helped to ease tensions on both the euro area government debt securities market and the financial and credit markets.

4.6 *Court of Justice*

4.6.1 The EESC agrees that the role of the Court of Justice should be strengthened, but not in the area proposed by the communication (infringement proceedings for Member States). That would perpetuate the belief that the EU's economic problems, including debt, are technical, legal problems rather than political issues that need to be addressed by means of a democratic, transparent EU decision-making process over which the citizens have sovereignty.

Brussels, 22 May 2013.

*The President*
*of the European Economic and Social Committee*
Henri MALOSSE