Opinion of the European Economic and Social Committee on the 'Reflection Paper on the Deepening of the Economic and Monetary Union'

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Preamble

This opinion is part of a wider package of four EESC opinions on the future of the European economy (Deepening of the Economic and Monetary Union and euro area economic policy, Capital Markets Union and The future of EU finances) (1)*. The package comes in the context of the White Paper process on the future of Europe launched recently by the European Commission and takes into account the 2017 State of the Union speech by President Juncker. In line with the EESC resolution on the Future of Europe* (2) *and previous opinions on completing EMU* (3)*, this package of opinions underscores the need for a common sense of purpose in the Union governance, which goes far beyond technical approaches and measures, and is first and foremost a matter of political will and a common perspective.*

1. **Conclusions and recommendations**

1.1. The common currency and its institutions provided a stabilising element in the global financial crisis and, before that, had brought to business and citizens benefits in the form of low inflation and interest rates, and ease of cross border trade and travel.

1.2. However, the reflection paper clearly shows that the EMU is incomplete and the 'Economic' component has lagged the 'Monetary' pillar in integration at EU level, which hampers its ability to support monetary policy and national economic policies. Decisions to correct the institutional and governance shortcomings, which in part give rise to the continuing fragility of the euro area, cannot be put off indefinitely. There is a need to strengthen the political will to cement the 'Union' part of EMU.

1.3. The drift towards protectionism and the eventual unwinding of exceptionally low interest rates and quantitative easing makes for a much more uncertain world leaving a limited time to make progress. The EESC reiterates to political leaders that it is even more important that Europeans commit to a common sense of purpose by enhancing their influence

(1) The package includes EESC opinions *Euro area economic policy 2017* (additional opinion) (EESC-2017-02837-00-00-AC-TRA-EN) (see page 216 of the current Official Journal), *Capital Markets Union: Mid-term Review* (EESC-2017-03251-00-00-AC-TRA) (see page 117 of the current Official Journal), *Deepening EMU by 2025* (EESC-2017-02879-00-00-ASAC-TRA) and *EU finances by 2025* (EESC-2017-03447-00-00-AC-TRA-EN) (see page 131 of the current Official Journal).

(2) EESC Resolution on *The Commission's White Paper on the Future of Europe and beyond*, 6 July 2017.

(3) See for example EESC opinions *Completing EMU — the next European legislature*, OJ C 451 of 16.12.2014, p. 10 and *Completing EMU: The political pillar*, OJ C 332 of 8.10.2015 p. 8.

and power through further integration. The Committee urges the Commission and the European Council to take bold decisions before the end of this mandate to advance necessary elements of EU-wide governance.

1.4. Among the most important elements for stability is the upward convergence of the heterogeneous economies. This will require national politicians and social partners to accommodate a European dimension into their national deliberations about economic and fiscal policies. The EESC calls for greater 'parliamentarisation' of the euro area, with a grand EP committee comprising all members of parliament from the euro area and from those countries wishing to join, combined with stronger coordination of members of parliament from the euro area on EMU issues.

1.5. For efficacy, balance and fairness, national policies for economic growth and wellbeing should be crafted and coordinated also with the general interest of the euro area in mind; for reasons of democratic accountability and ownership, the process of the European Semester should involve the European Parliament, national parliaments, the social partners and civil society. The social dimension must be included on a par with the economic dimension.

1.6. The EESC recognises the failings in the governance of the financial sector and fully supports the steps to complete the Financial Union, including the Banking Union and the Capital Markets Union.

1.7. Immediate solutions are required to tackle non-performing loans, which are a drag on banks' financial and human resources to provide finance for investments and are a deterrent to investors who fear that returns from new investments would be channelled into non-performing loan repayments.

1.8. The Committee supports the creation of an enabling framework by 2018 for the introduction of sovereign-bond backed securities (SBBSs) as proposed by the reflection paper. In the medium-long run the creation of a European safe asset would be necessary to reduce financial market volatility and ensure the stability of the Member States' economies in case of an asymmetric shock.

1.9. An own resource budget greater than the MFF 1 % of GDP is called for to fund the enhanced European Stability Mechanism, which should morph into a European Monetary Fund able to resource Member States in crisis and also be a backstop to the banking sector. A bigger budget should also be a resource for maintaining essential investment levels in the euro area in productive infrastructure of a European-wide benefit. Access to such funds should be linked to the achievement of agreed progress on economic and social standards.

1.10. There is a need for fiscal policy capable of stimulating the euro area economy in times of downturn. In their current form, the fiscal rules and Country Specific Recommendations (CSRs) act pro-cyclically, further depressing weak economies. The MIP is an important part of the Semester process, which should be at the forefront of macroeconomic imbalance prevention on a euro-wide basis. There should be more emphasis placed on the adverse euro area impact of Member States that run chronic balance of payments surpluses.

1.11. The Committee advocates the exploration of tools to improve economic governance in the EMU, for instance by creating a permanent Euro Finance Minister, while ensuring full democratic accountability. Bundling competences would enhance coherence of EMU policies that are currently fragmented due to the number of different institutions.

2. **Background**

2.1. On 1 March 2017 the European Commission presented a *White Paper* on the Future of Europe, which was followed by several reflection papers in the different domains of European policy-making. This Opinion concerns the third *Reflection Paper:* ***Deepening of the Economic and Monetary Union***.

2.2. The common currency and its institutions provided a stabilising element in the global financial crisis and, before that, had brought to business and citizens benefits in the form of low inflation and interest rates, and ease of cross border trade and travel.

2.3. However, the paper clearly shows that the EMU is incomplete and the 'Economic' component has lagged the 'Monetary' pillar in integration at EU level, which hampers its ability to support fully monetary policy and national economic policies. The paper levels no criticism of the policies pursued or decisions taken or decisions blocked. There is a need to strengthen the political will to cement the 'Union' part of EMU.

2.4. The European Union must address the really important systemic issue: how can we create a single currency and operate a single monetary policy and continue to make the **political** choice to leave economic and fiscal policy at national level.

2.5. The crisis clearly demonstrated how implausible this is. Failure to pool the necessary elements of sovereignty and create mutual trust between Member States resulted in a lack of solidarity. The heterogeneous euro area economies diverged under the weak and hopelessly incomplete coordination of economic and fiscal policies requiring the introduction of crisis measures through the intergovernmental process. Not surprisingly, the euro area split with Creditor states dictating the terms to Debtor states, and no euro area finance minister was in sight.

3. **The case for Deepening EMU**

3.1. The EESC has called for the deepening of EMU in many opinions over the last number of years ([4]). The Committee, therefore, welcomes and concurs with the case that the Commission builds for completing the economic and monetary union and notes that economic realities differ from state to state giving rise to quite different perceptions of the challenges facing the euro area. A stronger EMU requires stronger convergence.

3.2. The EESC is conscious of the diversity of opinion within the Member States regarding the Future of Europe, which reflects their history and their heterogeneity. But decisions to correct the institutional and governance shortcomings, which in part give rise to the continuing fragility of the euro area, persistent imbalances and the greatly divergent economic and social outcomes for Member States, cannot be put off indefinitely ([5]).

3.3. We have failed to achieve the upward convergence of the Member States, which some had thought a single monetary policy might bring. The failure to tackle all aspects of competitiveness in the real economy resulted in divergence, which rendered a single monetary policy inappropriate for many Member States, coining the phrase 'one size fits none'. The EESC has already expressed its reservations that the *Five Presidents' Report* followed up by a *White Paper* would result in lost impetus and urgency.

3.4. There is a need now to move forward on all fronts, economic and social, financial, fiscal and political, to build up the necessary conditions to pool essential elements of sovereignty, without fear of moral hazard, to ensure that the EU works for the wellbeing of all. This will replace the sub-optimal structures of the present governance, and will allow the EU, and in particular the euro area, to regain the confidence of citizens and investors alike, and play its full role in global affairs.

3.5. The Committee is concerned that, following the crisis, the Four Presidents' Report of 2012 and the Five Presidents' Report of 2015, insufficient tangible progress has been made to really deepen EMU. A great concern is the lack of urgency in making key institutional reforms to give democratic legitimacy to take executive decisions, and enforce implementation and compliance. This void in governance is increasing the drift towards populism and national and protectionist solutions in some Member States.

3.6. The global world we operate in is increasingly more uncertain with countries turning away from from free trade towards protectionism; exceptionally low interest rates and quantitative easing that have sustained the recovery in much of the developed world must unwind sometime soon with unpredictable and probably adverse consequences. There is now only a limited window of opportunity to make progress.

([4]) EESC Opinion on *Completing EMU — The next European legislature*, OJ C 451, 16.12.2014, p. 10; EESC opinion on *The Community Method for a Democratic and Social EMU*, OJ C 13, 15.1.2016, p. 33; EESC opinion on *Completing EMU: The political pillar*, OJ C 332, 8.10.2015, p. 8; EESC opinion on *Steps towards completing EMU* OJ C 177, 18.5.2016, p. 28.

([5]) EESC opinion on *Completing EMU: The political pillar*, OJ C 332, 8.10.2015, p. 8.

3.7. A full fiscal and political union may be medium to long-term projects but there are essential measures in this direction needed in the short term to strengthen the EMU and provide more stability. The EESC reiterates to political leaders that it is even more important that Europeans commit to a common sense of purpose by enhancing their influence and power through further integration.

3.8. The Committee urges the Commission and the European Council to take bold decisions with the necessary and full involvement of the European Parliament, before the end of this mandate, to advance necessary elements of EU-wide governance. To delay grasping the nettle of essential reform to a later mandate surrenders to inertia, for which neither markets nor citizens may have the patience.

4. **Financial Union: Risk reduction and risk sharing**

4.1. The EESC recognises the failings in the governance of the financial sector and fully supports the steps to complete the Financial Union, including the Banking Union and the Capital Markets Union.

4.2. Completing the Banking Union is fundamental to deepening EMU. The fragmented market and regulations were significant factors in militating against a resolution of the financial crisis. The EESC recognises that much has been done to coordinate the sector, but calls on all the actors to progress, as rapidly as possible, the completion of the banking union.

4.3. In particular, it is important to complete the work done on the Banking Union to strengthen financial integration and risk sharing through the financial markets. There is an urgent need by 2019 to establish a common backstop through the European Stability Mechanism to the Single Resolution Fund to ensure an adequate, speedy and efficient operation. This would also remove possible political bias. The EESC is supportive of the idea that the ESM would also take over the role of a European Monetary Fund and would have access to an own resource budgetary facility, after it has been brought under EU law.

4.4. A European Deposit Insurance Scheme (EDIS), taking already existing national systems into account, should be pursued without delay ([6]) to ensure savings in deposit accounts have the same better protection across the European Union.

4.5. To ensure progress on these fronts, there is a need to deal comprehensively with non-performing loans (NPLs) ([7]), which greatly increased during the crisis. NPLs act as a drag on the banks' financial and human resources to provide finance for new investments, which are crucial to growth. The ECB, Commission and governments should combine to tackle this legacy issue, based on the guiding principle that viable debt remains serviced and non-viable debt gets speedily resolved. Lack of a speedy resolution process deters would-be investors from making new investments for fear that the new revenues accruing would be syphoned off to furnish old loans.

4.6. A better framework for restructuring and insolvency on a euro-wide basis is a fundamental part of recovery from crisis, requiring the use of secondary markets with special expertise. The EESC advocates learning from examples of establishing bad banks. The EMU needs intelligent and sustainable solutions for NPLs that are currently still giving reason for concern.

4.7. The EESC urges the Commission to press on with establishing a CMU, which would be an important source of additional finance for larger businesses and would play an important role in risk sharing. The Committee acknowledges that this will not prove an additional source of finance to SMEs, especially small and micro businesses. Banking, therefore, will continue to play a crucial role, requiring banks to refocus on servicing the needs of the real economy, which requires fair access and sustainable bank finance across all Member States ([8]).

([6]) EESC opinion on *European Deposit Insurance Scheme*, OJ C 177 of 18.5.2016, p. 21, in particular points 1.1 to 1.3.
([7]) EESC opinion on *Action plan on a capital markets union*, OJ C 133, 14.4.2016, p. 17, in particular point 3.3.1.
([8]) EESC opinion on *Action plan on a capital markets union*, OJ C 133, 14.4.2016, p. 17 and EESC opinion on *CMU: mid term review*, (EESC-2017-03251-00-00-AC-TRA) (see page 117 of the current Official Journal).

4.8. In the short run (by 2018) the Committee supports the creation of an enabling framework for the introduction of sovereign-bond backed securities (SBBSs) as proposed by the reflection paper and the draft Commission working programme for 2018. SBBSs have the potential to sever the sovereign/bank nexus by de-privileging national sovereign bonds and diversifying banks' balance sheets while at the same time avoiding debt mutualisation. Consultation with financial providers is necessary to ensure appropriate regulatory treatment and foster private risk-sharing.

4.9. In the medium-long run (by 2025), the creation of a European safe asset, akin to US Treasury bonds, would be necessary to reduce financial market volatility and ensure the stability of the Member States' economies in case of an asymmetric shock. The EESC has long advocated the use of Union bonds and Euro bonds ([9]). Other similar proposals, such as a Debt Redemption Fund and a Eurobill Fund, have also been discussed. Following the conclusions of the expert group established to analyse the merits and risks of the different options for joint debt issuance, the Commission should now make a concrete proposal as to which instrument to use and under what timeframe ([10]). To avoid moral hazard, the Member States should be able to benefit from this instrument subject to compliance with their country-specific recommendations.

5. **Achieving Re-Convergence in a more Integrated Economic and Fiscal Union**

5.1. The Committee welcomes the paper's explicit recognition that upward convergence towards more resilient economic and social structures is an essential element for a stronger EMU. In recognition of the heterogeneous nature of the Member States there cannot be 'one size fits all' policies requiring across the board harmonisation, but it does require a common approach towards certain outcomes.

5.2. The weakness in economic and fiscal policy in the EMU rests fundamentally with the lack of a European-wide political will to allow EU involvement in national economic and fiscal policies. The EESC already emphasised that an upgraded reinforced macroeconomic dialogue is necessary, especially with countries of the eurozone, which could help to more strongly reflect the euro area dimension at national level. There must also be a more democratic system of executive decision-making than the Council of Ministers, the individual members of which are accountable only to their national parliaments and not the euro area as a whole.

5.3. The EESC welcomes the Commission proposals to further reinforce the European semester. For efficacy, balance and fairness, national policies for economic growth and wellbeing should be crafted and coordinated also with the general interest of the euro area in mind; for reasons of democratic accountability and ownership, the processes of the European Semester, which cuts across national and European policies should involve the Commission, the European Council, the European Parliament, national parliaments, the social partners and civil society. In a very limited way this process has begun but requires a greater degree of participation at national level and agreement of all the parties involved. This would strengthen the euro and if simplified and more transparent, the Semester would encourage much needed better reform implementation.

5.4. Reducing macroeconomic imbalances is crucial to European stabilisation. Such imbalances were formerly given temporary relief through currency devaluation. Now without this tool, extremely painful internal devaluations take place causing severe hardship through high unemployment and negative growth. For euro area stability and the avoidance of such severe adjustments, the build-up of macroeconomic imbalances must be prevented.

5.5. Macroeconomic dialogue at national level, therefore, must take account of this European dimension. Early detection and avoidance of macroeconomic imbalances, which reflect different levels of competitiveness, broadly defined (see 5.6), is a key element of the Semester process. National policy should be well informed about the impact that proposed policies would have on their competitiveness in the euro area, and also take into account developments in the euro area that may require a competitiveness response. The input of the local Commission euro semester officers and independent National Productivity Boards, linked to a euro area network could help by acting as a mirror to economic and social policy ([11]).

([9]) EESC opinion on *Where is the euro headed?*, OJ C 271, 19.9.2013, p. 8; EESC opinion on *Growth and sovereign debt in the EU: two innovative proposals*, OJ C 143, 22.5.2012, p. 10.

([10]) EESC opinion on *Completing EMU – The next European legislature*, OJ C 451, 16.12.2014, p. 10.

([11]) EESC opinion on *the establishment of National Competitiveness Boards within the Euro Area*, OJ C 177, 18.5.2016, p. 35.

5.6. An important element in these discussions is the social dimension, which has so far been neglected in the Semester process, increasing the social deficit of the EU by negatively affecting the lives of millions of EU citizens. This also fuels the trend to anti-EU populism and general dissatisfaction with the EU. A revised definition of competitiveness ('competitiveness 2.0') ([12]) to include 'the ability of a country to deliver "Beyond GDP" objectives' and measured on the basis of three pillars: income; social factors; and sustainability could result in a more comprehensive Semester process.

5.7. The EESC agrees that the implementation of national policies, where competences remain at the national level, could be coordinated through the European Semester process ([13]).

5.8. The Committee supports linking access to EU funds and a potential stabilisation instrument to the achievement of agreed progress on economic and social standards, as well as for the necessary transitions due to digitalisation, all aimed at the well being of citizens. This would be monitored through the European Semester ([14]). Seriously lagging economies that are striving to fulfil their CSRs should be eligible for cohesion fund assistance for productive investment, which would help catch-up or provide essential infrastructure of overall European benefit.

5.9. The EESC agrees that current EU budget of only 1 % of GDP is too small and not designed to operate a stabilisation function and will be even more inadequate after Brexit. The Committee supports the view that the euro area would benefit significantly from a strong stabilisation capacity in the event of severe asymmetric shocks ([15]). The Committee acknowledges that such a function should not lead to permanent transfers nor lead to moral hazard.

5.10. The EESC supports the proposal to explore the possibilities to build up a fiscal capacity for the euro area, the aim of which would be to maintain essential investment levels in the euro area in productive infrastructure such as transport, urban renewal, education, research and green transformation ([16]). This fiscal capacity could also be a source of finance for the ESM, which in time should morph into an EMF to finance crisis management funds.

5.11. An effective investment plan to generate revenue through growth, social cohesion and solidarity is necessary for Europe's economic integration, prosperity and prevention of growing social inequalities. The EESC has supported that a full Golden Rule be allowed for productive public investments, which should be incorporated into changing the fiscal rules.

5.12. The fiscal rules-based approach, must be improved and developed before the next mandate to prevent pro-cyclical policies. Prevailing local conditions should be taken into consideration. The structural balance has proved to be an unreliable non-observable variable upon which to base enforceable policy changes through the CSR process.

5.13. Too much emphasis is placed on debt reduction through sometimes self-defeating fiscal consolidation rather than the more fruitful measure to increase GDP growth. In the Semester process, reductions in the government's annual deficit are given far more weight as a remedy to the high debt/GDP ratio than more fruitful measures to increase GDP growth ([17]).

([12]) EESC opinion on *the establishment of National Competitiveness Boards within the Euro Area*, OJ C 177, 18.5.2016, p. 35.

([13]) EESC opinion *on Completing EMU — The next European legislature*, OJ C 451, 16.12.2014, p. 10; EESC opinion on *The Community Method for a Democratic and Social EMU*, OJ C 13, 15.1.2016, p. 33; EESC opinion on *Steps towards completing EMU*, OJ C 177, 18.5.2016, p. 28; EESC *Opinion on European Pillar of Social Rights*, OJ C 125, 21.4.2017, p. 10.

([14]) EESC opinion on *Economic governance review*, OJ C 268, 14.8.2015, p. 33; EESC opinion on *Completing EMU — The role of taxation policy*, OJ C 230, 14.7.2015, p. 24.

([15]) EESC opinion *EU finances by 2025*, (EESC-2017-03447-00-00-AC-TRA) (see page 131 of the current Official Journal).

([16]) EESC opinion on *Economic governance review*, OJ C 268, 14.8.2015, p. 33; EESC opinion on *The economic policy of the euro area*, OJ C 177, 18.5.2016, p. 41; EESC opinion *on Structural Reform-Support Programme*, OJ C 177, 18.5.2016, p. 47; EESC opinion on *Mid-term review of the Multiannual Financial Framework 2014-2020*, OJ C 75, 10.3.2017, p. 63.

([17]) EESC opinion on *Economic governance review*, OJ C 268, 14.8.2015, p. 33.

5.14. The EESC believes that by 2019 changes should be made to rectify 'the current situation [that] conceals a clearly sub-optimal repartition of the fiscal adjustment across countries at this point in time' ([18]).

5.15. The MIP is an important part of the Semester process, which should be at the forefront of macroeconomic imbalance prevention on a euro-wide basis. There is a need to remove the inbuilt asymmetry where persistent positive imbalances are viewed without censure and negative imbalances are subject to penalty ([19]). Not only does a financial penalty make a bad situation worse, but chronic surpluses in some Member States may make the deficit position even worse in a neighbouring state.

6. **Strengthening the EMU Architecture and anchoring Democratic Accountability**

6.1. The EMU is not an end in itself. It is a means to optimise the possibilities of achieving: sustainable growth, good jobs, economic and social upward convergence; stability and prosperity for **all** Member States by operating together; economic responsibility which goes hand in hand with solidarity; and risk-reduction which goes hand in hand with risk-sharing. While the euro area must make these necessary advances, it should also be open to other Member States. The EESC agrees that more transparency, good communication and increased involvement of the social partners and civil society is necessary and — together with an enforced role of national parliaments in the decision-making process — would help democratic accountability.

6.2. The EESC calls for greater 'parliamentarisation' of the euro area, with a grand EP committee comprising all members of parliament from the euro area and from those countries wishing to join, combined with stronger coordination of members of parliament from the euro area on EMU issues (COSAC +) ([20]). As mentioned in 5.2 and 5.3 the European Parliament, in particular, as well as national parliaments, social partners and civil society at large should play a major role in the democratisation of the Semester process.

6.3. The Committee advocates the exploration of tools to improve economic governance in the EMU, for instance by creating a permanent Euro Finance Minister, while ensuring full democratic accountability. Bundling competences would enhance coherence of EMU policies that are currently fragmented due to the number of different institutions. There should be a euro area fiscal stance established ab initio, with the Minister for Finance defining how it should be achieved. The current fiscal stance is the sum of all the Members States budgetary balances and the direction of the fiscal stance for the euro area is accidental.

6.4. The EESC welcomes the proposed strengthening of the ESM to develop it to a fully functional crisis management instrument. By developing it into a European Monetary Fund (EMF) within the European treaties, with a strong role for the European Parliament, democratic legitimacy would be improved and decision making speeded up.

6.5. The use of intergovernmentalism as a method of governance for the European Union should be abandoned and the fiscal rules should be revised before being integrated into EU law.

Brussels, 19 October 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([18]) COM(2016) 727 final
([19]) EESC opinion on *Economic governance review*, OJ C 268, 14.8.2015, p. 33.
([20]) EESC opinion on *The Community Method for a Democratic and Social EMU*, OJ C 13, 15.1.2016, p. 33.