Opinion of the European Economic and Social Committee on 'A new vision for completing the Economic and Monetary Union'

(own-initiative opinion)

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Preamble

This opinion is part of a package of two EESC own-initiative opinions drawn up in parallel: Towards a more resilient and sustainable European economy *and* A new vision for completing the Economic and Monetary Union. *The package is intended as a direct contribution to the economic agenda of the new European Parliament and European Commission taking office in 2019. There is a clear need for a new European economic strategy: a positive narrative for the future development of the EU economy in the wider world that would help increase the resilience of the EU to economic shocks and the sustainability – economic, social and environmental – of its economic model, thus bringing back confidence, stability and shared prosperity to all Europeans. Building on the progress achieved in recent years, this strategy could lay the ground for further economic, fiscal, financial, social and political integration that is necessary to achieve the objectives of Europe's Economic and Monetary Union.*

The EESC also issued an opinion on the completion of EMU back in 2014, which divided EMU into a monetary and financial pillar, an economic pillar, a social pillar and a political pillar. Further opinions were also adopted on each of the pillars individually. This opinion retains the four-pillar structure, in order to present an overview of progress towards and shortcomings in EMU and, finally, to propose a list of recommendations for a strong, inclusive and resilient monetary union that will be forwarded to the new Commission and the European Parliament. The EESC generally calls on the European institutions and national governments to take much more ambitious action in the context of EMU reform in order to achieve a more integrated, more democratic and socially better developed Union.

1. Conclusions and recommendations

1.1. Although considerable progress has already been made towards completing EMU, there is still a need to significantly reinforce all four of its pillars, taking care to maintain the balance between them, as neglecting one or more of these pillars could result in dangerous disparities. It is also important always to take account of the challenges presented by climate change. The pillars are also interdependent: for example, taking a social approach to the economic pillar also helps to boost the social pillar, and vice versa. Some specific measures could be attributed to more than one pillar.

1.2. Although completing EMU is the order of the day, further progress is being hampered by a difference of opinion between Member States over what direction it should take. A troubled economic outlook is compounded by geopolitical uncertainties and the prospect of Brexit. Disparities between Member States, the unequal distribution of income and wealth, the climate crisis and the predicted demographic development also present huge challenges.

1.3. Resilience to crises is a necessary, but not sufficient, condition for completing EMU: it also requires a positive vision, as set out in Article 3 of the EU Treaty. In the current circumstances, the EESC recommends prioritising the following aspects: sustainable and inclusive growth, reducing inequalities, upward convergence, ensuring productivity growth and competitiveness in line with the Europe 2020 objectives, a business- and investment-friendly environment, quality jobs and adequate pay, combating poverty and social exclusion, stable and sustainable public finances, a stable financial sector, and achieving the 2030 sustainable development goals (SDGs) and the goals of the Paris climate agreement.

1.4. The EESC's recommendations regarding the specific pillars of EMU are as follows:

1.4.1. a stable monetary and financial pillar as a basis for macroeconomic development

— ECB: consolidating its stabilising role and safeguarding its independence;

— decisive steps to complete the Banking and Capital Markets Unions, prioritising: stabilisation in order to build trust, efficient regulation, balancing risk sharing and risk reduction to avoid a new burden on public budgets in a crisis, taking account of the social impact of regulation, involving climate objectives and consumer protection;

— Banking Union: safeguarding the Single Resolution Mechanism and implementing EDIS, reviving the debate on structural reform and shadow banking;

— Capital Markets Union: setting priorities, specifically improving supervision, establishing an EU credit rating agency, creating a safe asset, and taking steps towards aligning insolvency rules;

— strengthening the international role of the euro on the basis of a stable, economically strong and socially balanced EMU;

1.4.2. a strong economic pillar as a basis for prosperity and social progress

— expanding the economic pillar in the interests of balance between States and to promote growth, productivity and competitiveness;

— balancing supply- and demand-side measures, which currently entails boosting the demand side by making greater use of the social scoreboard in the European Semester, strengthening the social partners' collective bargaining systems and autonomy, rapidly implementing the European Labour Authority, and implementing the 'Golden rule of investment' in ways that do not jeopardise medium-term financial and fiscal stability;

— creating a euro area fiscal capacity, funded from a common debt instrument and linking disbursements to strengthening the economic and social structure. The current proposals should be regarded as just the first step;

— measures to stem unfair tax competition and to prevent tax evasion and avoidance;

1.4.3. applying the social pillar as a basis for social and societal progress

— minimum social standards in Member States providing a high level of protection;

— to strive for finding a fair balance between sound economic basis and strong social dimension;

— broadening the debate concerning an EU finance minister to include an equivalent position for EU social and labour affairs;

1.4.4. a political pillar as a basis for democracy, solidarity and unity

— enhancing the involvement of the European Parliament and of the social partners and other civil society organisations in key social and economic policy decisions;

— solidarity and unity as a basis for prosperity and peace within the EU and for the EU's political and economic significance in a global context.

— rapid accession to the euro area by those EU countries that have not yet joined it.

2. **Completing EMU — achievements, challenges and objectives**

2.1. Considerable progress has already been made towards completing EMU, such that it now has a significant common body of law. In 2015, the Five Presidents' Report presented ambitious plans for deepening EMU. In June 2019, the Commission provided its input in a paper entitled 'Deepening Europe's Economic and Monetary Union: Taking stock four years after the Five Presidents' Report' ([1]), in which it took stock of the progress made since then and called for further action from the Member States. The EESC endorses this call. There is still a significant need for action both in the financial and economic pillars and in the social and democratic pillars. The EESC particularly draws attention to the need for balance between all areas, which interact in a wide variety of ways.

2.2. Although all Member States share an interest in preserving the euro, the further deepening of EMU is being obstructed by a difference between Member States over what direction it should take. It hinges on the conflict between risk sharing, which involves cross-border transfers or joint liability, and, on the other hand, the risk reduction approach, whereby the pressure to adapt is a national responsibility and economic resilience should be achieved through structural change. However, focusing on this divergence does not go far enough, because there are also different party-political and civil society perspectives. Completing EMU will, however, require a recognition, beyond individual interests and perspectives, that solidarity and a willingness to compromise are an indispensable foundation for a positive shared future in Europe.

2.3. The current economic climate presents a challenge. Following the long period of crisis, the economy within the EMU picked up again from 2014 onwards, but slowed down again in the second half of 2018. Several factors contributed to this, including the global slowdown in trade and economic development, unresolved trade disputes and also internal uncertainties such as Brexit. The loss of economic momentum was even more pronounced within the euro area, due to dependence on external demand and country- and sector-specific factors. The subdued economic development in the EU is expected to continue ([2]). The climate crisis, technological change, protectionism and cyber attacks, as well as digital and cryptocurrencies, are some of the challenges for the future. A recent ESPAS report concludes that the increase in global temperature — which will, among other things, result in a drop in productivity — is the most pressing policy issue in the present day, with significant economic and financial implications ([3]).

2.4. While the EU as a whole is relatively prosperous by global standards, due to its comparatively high gross domestic product (GDP) — both aggregate and per capita — and rising employment rates in recent years, social disparities between regions and Member States and within societies nonetheless hinder cohesion ([4]). 22 % of EU citizens are at risk of poverty and social exclusion. In a number of southern European countries, real wages are on average lower in 2019 than they were in 2009, contributing to further real divergence in levels of socioeconomic prosperity ([5]). The gender pay gap is also wide in many places, and a high proportion of people on the labour market are experiencing in-work poverty or unemployment. With regard to the distribution of household net wealth, the ECB concludes that it is 'heavily skewed' in the euro area, in that the wealthiest 10 % own 51,2 % of total net wealth ([6]). This creates a dangerous breeding ground for social tension and divisive forces.

2.5. Improved resilience to crises is necessary, but not sufficient. Completing EMU will require a positive vision, as set out in Article 3 of the EU Treaty, which refers among other things to promoting a competitive social market economy, aiming at full employment and social progress, and to protection of the environment. In the current circumstances, the EESC recommends prioritising the following aspects: sustainable and inclusive growth, reducing social and economic inequalities, upward convergence, ensuring productivity growth and safeguarding competitiveness in line with the Europe 2020 objectives, which also include 'beyond GDP' objectives ([7]), a business- and investment-friendly environment, quality jobs and adequate pay, combating poverty and social exclusion, stable and sustainable public finances, a stable financial sector, and achieving the 2030 sustainable development goals (SDGs) and the goals of the Paris climate agreement. The EESC also refers to its own-initiative opinion on 'Towards a more resilient and sustainable European economy'.

([1]) https://ec.europa.eu/info/publications/deepening-emu-taking-stock-four-years-after-five-presidents-report_en
([2]) https://ec.europa.eu/info/publications/european-economic-forecast-spring-2019_en
([3]) ESPAS, Global Trends to 2030, Challenges and Choices for Europe, April 2019, https://espas.secure.europarl.europa.eu/orbis/node/1362
([4]) https://ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_addressing-inequalities_en.pdf
([5]) ETUC, Benchmarking Working Europe 2019.
([6]) European Central Bank, The Household Finance and Consumption Survey: results from the Second wave, No 18 / December 2016.
([7]) EESC opinion OJ C 177, 18.5.2016, p. 35.

3. Monetary and financial pillar — the basis for economic development

3.1. The EESC highlights the importance of the ECB's stabilising role in times of crisis. For example, just the announcement by the President of the European Central Bank that the bank would purchase government bonds if necessary (the Outright Monetary Transactions (OMT) programme) was enough to calm the markets. The quantitative easing programme introduced from 2015 onwards in order to achieve the inflation target led to a further fall in interest rates, facilitating access to liquid funds. The fact that banks are currently depositing funds with the ECB even if they incur negative interest rates points to the need to strengthen the economic pillar of EMU. The EESC also recommends that the ECB's role as lender of last resort should be consolidated. The ECB's independence must be maintained.

3.2. The financial sector of EMU fulfils its function of financing SMEs satisfactorily, according to a study by the ECB ([8]). As it stands, the main concerns identified by SMEs are the availability of skilled labour and experienced managers, along with difficulties in finding customers, while lack of access to finance is seen as a minor issue. Businesses in some Member States are more heavily affected, but there too the pressure is easing. The study is based on a sample size of 11 020 enterprises in the euro area, 91 % of which have fewer than 250 employees. The EESC stresses the importance of a stable funding base for large companies as well.

3.3. The EESC strongly urges the EU institutions to be resolute in pursuing the completion of the Banking and Capital Markets Unions, thus laying the foundations for definitively overcoming the financial crisis and for a resilient EMU in which trust is fully restored. A balance needs to be struck between risk sharing and risk reduction so as to minimise the impact on public budgets in the event of a crisis, whether at national or at Community level. Financial market regulation must prioritise efficiency over complexity. The social impact of regulation must be taken into account, and consumer protection must be given high priority.

3.3.1. The ratio of financing via bank loans to equity financing is significantly higher in the EU than in the USA. The EESC is in favour of diversifying sources of financing and thus of increasing risk sharing, which in the EU means putting more emphasis on equity financing.

3.4. The EESC acknowledges the progress made with regard to the Banking Union, and highlights the positive role played by the Commission. However, despite statements made to the contrary, the Member States have still not reached a joint decision on the use of the European Stability Mechanism (ESM) as a backstop for the Single Resolution Fund (SRF), and further steps towards implementing the European deposit insurance scheme (EDIS), which is urgently needed, have been repeatedly rejected by the Member States.

3.4.1. In the EESC's view, a concrete timetable for the EDIS is overdue ([9]). In the context of using the ESM as a backstop for the SRF, the EESC also recommends boosting the SRF, reducing non-performing loans in a socially sustainable way, and implementing robust minimum requirements for own funds and eligible liabilities (MREL) ([10]). Moreover, in the context of the Banking Union, anti-money-laundering measures should also be consistently pursued ([11]). The debate on banking structural reform should be revived with the aim of reducing risks to an acceptable level, and the EESC also advocates paying greater attention to the need to regulate shadow banking.

3.4.2. The EESC reiterates its previous call for the improvement and consolidation of the pillars of the Banking Union to go hand in hand with the implementation of the Sustainable Development Goals (SDGs) and the Paris Climate Agreement. In terms of capital requirements, there is a need to allow for more favourable treatment of environmentally friendly investments and various non-complex, inclusive long-term loans — especially those relating to energy efficiency, renewable energy, etc.

3.5. Completion of the Capital Markets Union will help absorb shocks and boost investment by businesses, thus improving competitiveness ([12]). Unlike the Banking Union, which is based on clearly defined pillars, the Capital Markets Union covers a great many different initiatives, such as MIFID, the Payment Services Directive and the pan-European Personal Pension Product (PEPP). It is difficult to make a definitive overall assessment, but the EESC recommends the following design principles: first of all, there needs to be a focus on central projects. The priority should be on improving supervision. The Commission should also revive the discussion on setting up an EU credit rating agency. With regard to a 'safe asset', the EESC awaits with interest a proposal from the Commission. Secondly, efforts should be made to align insolvency rules and corporate taxes. With this in mind, the EESC welcomes the steps towards a common corporate tax base, while also taking appropriate measures to combat unfair tax competition.

([8]) European Central Bank, Survey on the Access to Finance of Enterprises in the euro area, April to September 2018, November 2018.
([9]) EESC opinion OJ C 237, 6.7.2018, p. 46.
([10]) Term sheet on the European Stability Mechanism Reform, 4 December 2018.
([11]) Eurogroup report to Leaders on EMU deepening 4 December 2018.
([12]) Capital Markets Union. Commission contribution to the European Council CMU (21/22 March 2019).

3.6. The EESC welcomes the initiative to strengthen the international role of the euro, which is currently the second most important currency after the US dollar. To that end, the European Commission recommends completing EMU and the Banking and Capital Markets Unions, as well as further initiatives in the financial sector and greater use of the euro in the energy, raw materials and transport sectors, and feels that the EU needs to speak with one voice on strategic and economic issues. However, the EESC feels that these measures do not go far enough. Social cohesion, upward economic convergence and economic strength, and the promotion of competitiveness and innovation also provide an essential basis for the sound development of the euro and thus for a stronger international role for the currency. The EESC would refer to its opinion 'Towards a stronger international role of the euro'.

4. **The economic pillar — the basis for prosperity and social progress**

4.1. The ECB's monetary policy applies equally to all euro countries, while external trade imbalances could be accentuated, and the countries are at different points in the economic cycle and are not all equally resilient to shocks. At the same time, euro countries do not have access to national monetary and exchange rate policy instruments. The economic pillar therefore needs to be expanded so as to promote investment in sustainable growth, consumer demand, productivity and competitiveness. This requires a balance between supply- and demand-side measures. The Commission expects to see positive growth in 2019 and beyond, due to private consumer demand and investment ([13]). The EESC recommends stepping up this impetus.

4.2. The European Semester plays an important role in macroeconomic convergence. The EESC welcomes the Commission's intention to make more use of the 'social scoreboard' provided for in the European Pillar of Social Rights. Social security increases confidence in a financially secure future and has a positive effect on aggregate demand. The EESC advocates also using the European Semester for proposals for the application of additional resilience criteria in the interests of eliminating social inequalities and tackling climate change.

4.3. Sufficient purchasing power is based on well-paid jobs. However, this is hampered by the fact that real wages are, on average, tending to grow more slowly than productivity ([14]). The EESC therefore recommends strengthening the social partners' collective bargaining systems and autonomy. In order to ensure fair competition, the existing minimum standards need to be enforced for all employees. In addition, the possibility should be examined of identifying available tools and a framework at EU level in support of and guidance for Member States in their endeavours to develop minimum income systems. The rapid implementation of the proposed European Labour Authority (ELA) is an important step in the fight against unfair competition.

4.4. Investment in social housing, education, research, digitalisation, climate protection, sustainable mobility and renewable energy is not only an economic stimulus and an important economic policy instrument, but also ensures production capacity for future prosperity and competitiveness ([15]). Although the European Fund for Strategic Investment (EFSI) is a step in the right direction, there is still a significant need for action. For example, net public investment as a percentage of GDP in the euro area has stagnated at zero. One important step will be to improve fiscal governance.

4.5. There is scope to do so without amending primary legislation. Although the TFEU defines price stability as a primary objective of EU economic policy, this objective must be achieved on the basis of balanced economic growth, a competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. The economic policy approach thus delineated allows for both supply- and demand-side elements to be taken into account, such that the stability pact is also a growth pact. However, in order to safeguard the no bail-out clause between the Member States, the framework has repeatedly been tightened up via the Fiscal Compact, the 'Two Pack' and the 'Six Pack'. With this in mind, the EESC recommends implementing the golden rule for public investment in ways that do not jeopardise medium-term financial and fiscal stability ([16]). This would help to ensure that future-oriented public investment is maintained at a necessary level, in line with the deficit rules.

([13]) https://ec.europa.eu/info/publications/european-economic-forecast-spring-2019_en
([14]) European Commission, Annual Growth Survey 2019.
([15]) IMF direct, 2014; OECD Economic Outlook, June 2016.
([16]) Truger, Achim (2018): Fiskalpolitik in der EWU. Reform des Stabilitäts-und Wachstumspakts nicht vergessen! [Fiscal Policy in the EMU. Don't forget reform of the Stability and Growth Pact!] WISO direkt, Friedrich-Ebert-Stiftung, Bonn.

4.6. Completing EMU requires a common fiscal capacity for the euro area. The EESC advocates a common budget for the euro area that can be funded from a common debt instrument. Moreover, the debate should be revived on the possibility of a European minister of economy and finance ([17]), who should also be accountable to the European Parliament. The EESC stresses that disbursements must be linked to strengthening the economic and social structure. The term 'structural reform' needs to be defined along these lines. The relationship needs to be clarified between measures under the Multiannual Financial Framework 2021-2027 ([18]) (MFF) and the Structural and Investment Funds.

4.6.1. The Commission has proposed a European Investment Stabilisation Function under the MFF 2021-2027, which would be applied in the case of country-specific shocks, but the proposed budget of EUR 30 billion is nowhere near enough to have a stabilising effect. The EESC also finds it regrettable that the Euro Summit in December 2018 did not address the stabilisation component in this form. It did, however, announce that the features of a budgetary instrument for convergence and competitiveness would be agreed ([19]). The Commission called for this in the run-up to the Euro Summit in June 2019, and highlighted its willingness to present a new regulatory proposal ([20]). The EESC sees this as a possible entry move towards a euro budget and will examine the economic and social implications of the proposed instrument.

4.6.2. As another form of EMU fiscal capacity, unemployment (re)insurance has been used as a reference, funding for which could be permanently secured on the basis of as yet undetermined criteria. In the event of an economic shock, this would make it possible to mitigate the adverse effects of the crisis. There is also a need to strengthen national automatic stabilisers such as national unemployment insurance schemes. The EESC believes that the idea of establishing adequate principles for national unemployment insurance should be further pursued. This could lead to a real improvement in living and working conditions and would also strengthen national automatic stabilisers.

4.6.3. There are also plans to amend the ESM Treaty, and the Commission has also called on the heads of state and government to do so. In addition to the common backstop to the SRF, there is also a need, among other things, to make adjustments to precautionary financial assistance in the process, and to ensure an appropriate level of conditionality. New modalities for cooperation between the ESM and the Commission are also planned ([21]). The EESC cautions against increasing the *ex ante* conditionality of precautionary financial assistance, which would undermine the stabilising effect of the instrument.

4.7. Tax policy must also not be ignored when completing EMU. Across the EU, losses due to tax evasion could amount to EUR 825 billion a year ([22]). For example, Base Erosion and Profit Shifting (BEPS) in the EU by multinationals is estimated to amount to EUR 50-70 bn or 0,3 per cent of EU GDP before the comprehensive anti-tax avoidance measures were enacted ([23]). However, tax evasion still remains an important problem and has to be tackled. At the same time, the tax burden and social contributions on labour in Europe are the highest in the world. Combating aggressive tax planning and tax evasion, and eliminating special arrangements by governments and tax authorities ([24]) that could be described as tax havens, could prevent tax losses and establish a broader basis for public investment to develop social infrastructure and mitigate climate change and for achieving sustainable stability in the real economy and the financial sector.

4.7.1. The EESC notes with great interest the Commission's communication to use the passerelle clause enshrined in Article 48(7) TEU in tax policy and other areas. This would allow for a reform towards qualified majority voting. In addition, initiatives to reduce tax fraud and prevent unfair competition in the area of corporate tax need to be pursued consistently. The EESC refers here to its opinion on threats and obstacles to the single market ([25]). The EESC welcomes the proposal that, under the MFF, certain taxes should be paid directly into the EU budget so as to increase own resources.

5. The social pillar — the basis for social and societal progress

5.1. A sustainable structure for the monetary and financial pillar and the economic pillar will also strengthen the social foundations of EMU. A number of building blocks for strengthening the social pillar have already been mentioned above: for example, integrating a 'social scoreboard' into the European Semester would mean that criteria such as upward convergence on minimum incomes or wages and reduction of (youth) unemployment should be further strengthened.

([17]) COM(2017) 823 final.
([18]) COM(2018) 321 final.
([19]) Statement of the Euro Summit, 14 December 2018.
([20]) https://ec.europa.eu/info/publications/deepening-emu-taking-stock-four-years-after-five-presidents-report_en
([21]) Term sheet on the European Stability Mechanism reform, 4 December 2018.
([22]) A report for the Socialists and Democrats Group in the European Parliament by Richard Murphy http://www.taxresearch.org.uk/Documents/EUTaxGapJan19.pdf
([23]) EESC opinion ECO/491 - Taxation – qualified majority voting, not yet published.
([24]) Commission decision SA.38375 (Lxb/Fiat Finance), SA.38374 (NL/Starbucks), SA 38373 (IRL/Apple), SA 38944 (Lxb/Amazon).
([25]) OJ C 125, 21.4.2017, p. 8 (point 3.6 on Tax policy).

5.2. The EESC believes that improving and implementing minimum social standards in Member States on the basis of a common European framework with a high level of protection can make an important contribution to upward social convergence. The EESC would point out that such upward social convergence towards improved living and working conditions should be based on sustainable growth, quality jobs and competitive business environment and could be improved by finding a fair balance between sound economic basis and strong social dimension.

5.3. A balance needs to be struck between social and financial issues. For example, the debate concerning a European minister for economic and financial affairs should be complemented by a debate on a fully resourced commissioner responsible for labour and social affairs, who would among other things be responsible for monitoring the European Pillar of Social Rights.

6. **The political pillar — the basis for democracy, solidarity and unity**

6.1. Growing economic inequality, loss of prosperity and a pessimistic outlook on prospects for the future could in future play a major role in how civil society perceives the overall value of the EU. Reinforcing the other three pillars as proposed above is therefore, in the EESC's view, an important and necessary condition for stabilising the political pillar. This is essential in order to increase public trust in the EU.

6.2. Unfortunately, the European Parliament and the social partners are not sufficiently involved in the European Semester, in excessive deficit procedures or in ESM measures. This, too, is a catalyst for centrifugal forces, in that the assessment of, for example, whether a country is in breach of the deficit criteria and of what structural reforms need to be implemented has social and distributional consequences. The EESC strongly calls for the European Parliament, as well as national parliaments, the social partners and other civil society organisations, to be fully involved in key economic and social policy decisions. It is the only way of ensuring that, in addition to national interests, different party-political and civil society perspectives are appropriately reflected.

6.3. At present, only 19 of the 28 EU countries are members of the euro area. In order to complete the monetary union, however, those countries that are not yet part of the euro area will need to join it, and they should do so as soon as possible, in which connection the Member States themselves should also take decisive action. A majority of people in EU countries outside the euro area also believe that the single currency has a positive impact on the economy ([26]).

6.4. The EESC draws attention to the important role that a common approach and unified action by the EU Member States play, not least in a geopolitical context. Solidarity, compromise and pulling together are the basis for prosperity and peace within the EU, and for its international importance and competitiveness. This is particularly the case with regard to the shaping of social and economic policy. The EESC therefore calls on the Council and the Commission to present an ambitious roadmap for deepening the Economic and Monetary Union. This will generate security and trust and provide the basis for a positive economic and social future for the EU.

Brussels, 17 July 2019.

The President
of the European Economic and Social Committee
Luca JAHIER

([26]) https://agenceurope.eu/en/bulletin/article/12271/23