Istituto Affari Internazionali

The Report of the Five Presidents: A Missed Opportunity

by Fabrizio Saccomanni

ABSTRACT

The report presented by Presidents of the five EU institutions identifies all the essential challenges the EU is facing and acknowledges the need for "a new convergence process" to root out the imbalances that triggered the economic and financial crisis. However, the report is deceptive, since it takes for granted that the EU has as much time as it requires at its disposal to enact reforms; and it is misleading because it subordinates the supranational dimension of policies to the responsibilities of the Member States. Very little is proposed with regard to countercyclical policies in the Eurozone, and the focus is on common monitoring of fiscal compliance. The report continues to evoke a "Europe of Sovereign Nation States" without any significant progress toward Political Union. The report misses an opportunity to send a clearer signal about what a stronger federalist approach could accomplish, especially from a multi-decade standpoint.

European Union | Eurozone crisis | Economic governance

keywords

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Introduction

At first glance, the report presented by Presidents Juncker, Tusk, Dijsselbloem, Draghi and Schulz on "Completing Europe's Economic and Monetary Union"[1] adeptly chooses its themes and words, makes many of the right "noises" and identifies all the essential challenges the EU is facing.

It acknowledges the need for "a new convergence process" to root out those imbalances that triggered the economic and financial crisis, citing the necessity for progress on four fronts: a "genuine Economic Union," a full Banking and Financial Union, a Fiscal Union and a Political Union.

The report admits the need for a "shift from a system of rules and guidelines for national economic policy-making to a system of further sovereignty sharing within common institutions, most of which already exist and can progressively fulfil this task."

Nevertheless, upon closer examination, the report is deceptive, since it takes for granted that the EU has as much time as it requires at its disposal to enact reforms; and it is misleading because, in reality, it continues to subordinate the common and supranational dimension of policies and instruments to the priorities and responsibilities of individual Member States.

Finally, it is also to some extent irritating for someone who has lived through the long process of monetary unification, in as much as it rolls that process all the way

[1] Jean-Claude Juncker et al., *Completing Europe's Economic and Monetary Union* (Five president's report), 22 June 2015, http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf.

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. Translation of "Documento ingannevole fuorviante irritante", published in *AffarInternazionali*, 30 June 2015, http://www.affarinternazionali.it/articolo.asp?ID=3110. Translated by Darragh Henegan.

back to 1989, to the days of the Delors Committee, if not indeed to the 1970 Werner Report.

Fifteen years after the inception of the Monetary Union, the report still suggests proceeding by stages, calling for yet another decade of efforts at convergence, and evoking the mirage that Political Union will either be the final reward for those efforts, or else will not happen.

The process's lengthy timeframe is the natural consequence of the rapporteurs' – all persons of vast experience, steadiness and wisdom – fear of making "politically" incorrect and unrealistic proposals to the political leaders who should espouse them and convince their parliaments and national public opinion to approve them.

Thus, Stage 1 (from July 1st 2015 to 30 June 2017) factors in the larger European nations' scarce inclination to negotiate a new treaty and, in particular, the electoral calendars of Germany and France.

1. Stage 1 – by 30 June 2017

In essence, the report recommends that existing instruments be used to complete whatever was left unfinished during the management of the crisis, with some institutional innovations.

Proposals include: "the creation of a euro area system of Competitiveness Authorities; a strengthened implementation of the Macroeconomic Imbalance Procedure; a greater focus on employment and social performance; and on stronger coordination of economic policies within a revamped European Semester."

The semester would be divided into two stages: a European one in which Eurozone economic policy recommendations would be drafted; and a national stage that would produce specific recommendations for each country, as happens now.

The process would go hand-in-hand with the European Parliament's strengthened control and a new European Consultative Committee for public spending composed of parliamentary budget offices already established in each country in accordance with the European fiscal rules in force.

Within this context, the report proposes that the fiscal six-pack and two-pack be reviewed in order to "improve clarity, transparency, compliance and legitimacy."

Finally, it cites the need to complete the Banking Union in the first stage by strengthening the Single Resolution Fund for banking crises and formalising an accord on a common system of insuring bank deposits; a Capital Markets Union would also be launched.

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A vast programme that, nevertheless, would not affect the merely intergovernmental structure of European economic policy, and would not contribute to equipping the Eurozone with instruments for pursuing countercyclical fiscal policy.

Prospects for a recovery of economic activity, investment and employment remain dependent on policies of fiscal consolidation and the enactment of structural reforms aimed at bolstering competitiveness and productivity. A combination that to date has had modest effects on Europe's economic situation.

2. Medium term, only generic objectives

With regard to the medium term, the report limits itself to identifying only a few main goals to be achieved in the second and final stages, without specifying the timetable, but in any case within 2025 at the latest. That is where the report is disappointing: for its lack of ambition, as well as for some very revealing inconsistencies.

In order to complete the Economic Union, the report proposes the formalisation and greater binding capacity of the convergence process, with legal benchmarks that would mainly concern the job market, competitiveness, business, the public administration and some aspects of taxation policy.

In this context, the Macroeconomic Imbalance Procedure could also be used "to foster reforms and monitor progress in each euro area Member State towards these common standards."

In order to implement the Fiscal Union, the report proposes the creation of a macroeconomic stabilisation function for the Eurozone. What finally seems to be a step in the right direction toward giving the zone discretional capacity in economic policy, in fact is not, and a careful reading of the report confirms it.

In reality, the function would develop "in the longer term" as "the culmination of a process that requires, as a pre-condition, a significant degree of economic convergence, financial integration and further coordination and pooling of decision making on national budgets." Convergence would therefore be a prerequisite for countries' access to the stabilisation mechanism.

Moreover, the function's aim would not be to stabilise the Eurozone economic cycle, but rather "to improve the overall economic resilience of EMU and [...] help to prevent crises."

The report acknowledges that macroeconomic shock absorbers are needed, but how to install them in the Eurozone is going require more in-depth studies to be conducted by a new committee of experts that will assist the Commission in formulating proposals for the later stages of the process.

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For the present, it admits that the stabilisation function could originate from the European Fund for Strategic Investments (EFSI) recently set up to implement the Juncker Plan for investments in principal European infrastructures (energy, digital economy, transport); but this merely passing mention is devoid of any further detail.

3. Political Union: two initiatives of different import

Finally, in what should be the chapter devoted to Political Union the report proposes two different initiatives of very different import. The first concerns the incorporation of the European Stability Mechanism (ESM – known as the bailout mechanism) into EU law.

It acknowledges that the intergovernmental structure of the Mechanism makes for complex and time-consuming decision-making processes, and proposes the full incorporation of ESM governance into the Treaty on European Union.

The second initiative is much broader in scope, in that it proposes a Eurozone treasury; but here too, the proposal is of an evolutionary nature: "as the euro area evolves towards a genuine EMU, some decisions will increasingly need to be made collectively while ensuring democratic accountability and legitimacy."

A future Eurozone treasury could potentially be the appropriate setting for this collective decision-making process. However, it would not be a finance ministry for the Eurozone because "Member States would continue to decide on taxation and the allocation of budgetary expenditures according to national preferences and political choices."

In keeping with this more intense communality, the report deems advisable the increased unification of the EMU's external representation in international spheres.

4. A missed opportunity

In conclusion, the report misses an opportunity to send a clearer signal about what a stronger federalist approach could accomplish, especially from a multi-decade standpoint, in terms of correcting a "limp" that has developed as a result of monetary policies being managed by a federal body and economic policies being handled at national level according to common rules.

Instead, it continues to evoke a "Europe of Sovereign Nation States" where new "functions" put into common use are managed by intergovernmental bodies without achieving any significant progress toward Political Union.

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Reference might have been made to the "strengthened cooperation" instrument already envisaged by the treaties. The framework the report offers heightens the emphasis on fiscal strengthening policies, structural reforms and competitiveness – themes on which, between old and new committees and authorities, there is already an overabundance of competencies and procedures – with the concomitant risk of increasing the complexity of governance and undermining its credibility.

Conversely, very little is proposed with regard to countercyclical policies in the Eurozone, and the report continues to call "coordination of economic policies" what is, in reality, merely a common monitoring of compliance with fiscal rules.

The possible countercyclical use of the EFSI is only hinted at, and nothing is said about the role that could be played by a reform of the community budget involving the use of "own resources" to be identified for anti-crisis purposes.

Finally, ambiguity persists regarding the true aims of the Macroeconomic Imbalance Procedure, which could be utilised to monitor progress in the implementation of structural reforms and the reduction of public debt rather than for fostering the correction of balance of payment imbalances.

In any case, the Commission is meant to present a white paper in the spring of 2017 assessing the progress made in Stage 1, and to draft proposals for completion of the EMU in the following stages. Until then, not much news on the European front.

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