

The future of the EMU. The Treaty on Stability, Coordination and Governance and the EU legal framework ¹

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The debate on the deepening of the EMU is entering in its crucial second phase, and the European Commission is going to present an important package with concrete proposals and a broader roadmap which will be discussed in the European Council, in the European Parliament and in the Member States.

This fundamental process is taking place against the backdrop of a robust and broad based economic expansion, supported by rising private consumption, employment and investments, and record-low public deficits.

At the same time, we can observe the persistent legacy of the crisis in terms of long lasting imbalances and still too high unemployment and public debt.

Furthermore, we see a more structural problem of insufficient growth of potential output and productivity, too low investments and wages, persistent social inequalities.

This economic context offers us a solid base for our discussion and provides us with important indications and lessons.

The first lesson is that quality of policies matters. Our governance framework is clearly suboptimal. We have seen it during the financial and sovereign debt crisis, and neither the ESM, nor the revision of the SGP and Fiscal Compact have fully addressed those weaknesses. However, if the crisis is over and

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recovery is gaining momentum this is also thanks to the way in which our imperfect and incomplete governance framework has been intelligently managed at its various levels.

The ECB has done very well: with the OMT that has put an end to the sovereign crisis, while Deauville had triggered it and the ESM had proven to have not enough firepower. And with the QE, which has been decisive in easing financing conditions, facilitating the deleveraging process and supporting domestic demand.

But also in the remit of fiscal and economic policy the member States and the Union institutions, in particular the European Commission, have done well. Implementing reforms, and introducing the flexibility which has allowed a growth friendly fiscal consolidation avoiding a new downturn.

In substance, the first lessons we can take from the positive side of the current economic condition and outlook is that the so called market discipline is not sufficient and can be counterproductive; that Union institution, especially of federal nature, are more effective than intergovernmental ones; and that flexibility is an indispensable feature of a fiscal framework. If you say PSI at Deauville you then have more crisis and have to pay more, while if you say “whatever it takes”, plus conditionality, you pay less and achieve more. Equally, if you apply intelligent flexibility you can have both growth and deficit reduction, while with strict austerity you end up with none of the two.

The second lesson coming from the current economic conditions is that while good policies are fundamental, we still have insufficient instruments to fully address our cyclical and structural problems: in particular the need to strengthen inclusive growth and productivity, boost job creation, promote convergence, support investments, enhance resilience to shocks.

In this respect the fact that we are in better shape, economically and also politically, provide us with a window of opportunities that we should not waste.

What are the functions we need in order to address those historic and secular challenges?

I would identify six functions: 1) crisis management; 2) macroeconomic stabilisation; 3) economic policy convergence; 4) fiscal surveillance and coordination; 5) provision of European common goods; 6) financial integration, and discuss in particular some of them on the basis of what we expect from the incoming Commission proposals.

As we all know, the Commission has announced that it will present a proposal for the transformation of the European Stability Mechanism into a European Monetary Fund. While in itself this can hardly be defined as one of our most urgent priorities, some focused improvements of the current crisis management function can be useful, especially by making it more autonomous from the IMF.

At the same time, an enhanced ESM/EMF should fully respect the Commission competences in the framework of economic policy coordination and multilateral surveillance procedures. This includes also the macroeconomic and surveillance analysis that the IMF performs through its art. IV consultations: the building up of such a capacity within the ESM/EMF should be avoided, as well as the setting up of mechanisms that envisage debt restructuring as a precondition or ESM/EMF support, which would seriously affect financial stability and hence contradict the very mandate of the ESM as defined in art. 136.3 of the Treaty.

But the most important condition for the enhancement of the ESM, which makes also of it an opportunity, is its incorporation into the EU legal framework through art. 352 TFEU. This would not only have the advantage to involve in the procedure both the European Parliament and the national Parliaments.

It would also on the one hand allow the necessary degree of democratic scrutiny at European level, and on the other hand would be the condition for a stronger and more streamlined involvement in the programme work through possible amendments of the Two Pack legislation (which would not be possible without the integration into the EU law).

Finally, an ESM/EMF integrated into the EU law would make it possible to make more meaningful the building up of a stabilisation function announced by the Commission, by making of the well-established borrowing capacity of the ESM a backstop not only for the SRF but also for the new instrument for macroeconomic stabilisation.

It will be a crucial discussion with those national governments that prefer an intergovernmental solution, and we, European Parliament and National Parliament should form a united front.

These considerations bring me to the second function, the macroeconomic stabilisation. There is broad consensus among experts on the fact that common monetary policy and national fiscal policies do not provide the EMU of the sufficient tools to absorb asymmetric shocks. Among the various options, I consider an unemployment benefit scheme, or a rainy day fund for unemployment, the best suited to perform the role of rapidly tackling the impact of a severe economic downturn while avoiding permanent transfers and prevent moral hazard.

I understand that the Commission is reflecting on a mechanism of stabilisation through public investments, which is a possibility that can be explored also if appear less automatic and make the mechanism more controversial among Member States.

The Parliament supports also the establishment within the Union budget of an economic convergence function, through the provision of support to structural reforms.

We have also proposed a convergence code which might define the targets of an enhanced economic policy coordination while leaving to national governments and parliaments the necessary discretion to define the policy combinations necessary to reach those target.

I note that new instruments in this respect would represent a far more meaningful and useful transposition of the Treaty on Stability, Coordination and Convergence in the Union law. I will come back in few minutes on the issue, but I would like to underline that while the incorporation of title III of the Treaty, the Fiscal Compact (art. from 3 to 8), is in my view unnecessary and counterproductive, it would be useful to focus on title IV on Economic policy coordination and convergence, which calls the contracting parties to “work jointly”, by making use of Treaty provisions like art 136 and enhanced cooperation, “towards an economic policy that fosters the proper functioning of the EMU and economic growth through enhanced convergence and competitiveness”.

Budgetary support for economic policy coordination, and also for giving additional pre-accession assistance to non-euro area Member States, as the Commission plans to propose, is useful.

However, for the Parliament this budgetary tools can only be established on top of existing capacities, and not through redeployments that would undermine the current fundamental role played by structural funds and cohesion policy.

This brings us to the necessity of an ambitious Multiannual Financial Framework for the next cycle, which should make full use of the suggestions of the High Level Group Report on the Own Resources. In this respect, the

provision of the abovementioned functions and of other common goods that can be provided more efficiently at EU level (like management of EU borders, sustainable development and investments, but also measures like a child basic income) could be financed through the so called earmarking of specific forms of revenues directly linked to common sectorial policies.

As on the needs and the tools for enhancing financial integration through the completion of the Banking Union and the CMU we have already a clear roadmap, I can finally focus on fiscal surveillance and coordination and the integration of the Fiscal Compact into the EU law.

As I already said, while working on the Title IV of the Treaty would be extremely useful because we don't currently have adequate instruments policy to provide enhanced economic coordination and convergence, the fiscal provision of the Treaty which are in Title III (Fiscal Compact) are already incorporated into the EU law, with a very small difference related to the lower limit of the structural deficit for the balanced budget (0,5% instead of 1% in the SGP, but only for countries with high debt, for which in any case the MTO is calculated below 0,5%).

What is not in the EU law, the obligation to incorporate in the national law the balanced budget and the correction mechanism, is already operational and in this respect the Fiscal Compact has concluded its function.

Moreover, it should be noted that art. 2.2 of the Treaty clarifies that it "shall apply insofar as it is compatible" with the EU law, which means that any amendment to the SGP or to the EU Treaties would automatically legally prevail over the Fiscal Compact provisions.

All these elements tell us that the planned incorporation of the Fiscal Compact into the EU law seem neither useful nor necessary.

The only thing which would make sense would be to streamline the correction mechanism with the current flexibility provisions, which provide the Commission with an indispensable margin of appreciation necessary to make the “overall assessment” of a MS deviation from the MTO or from the appropriate adjustment path towards it, taking into account “in particular” but not only some criteria listed in legislation (art 6.3, reg. 1466\97).

In addition to that, in order to provide any added value, the exercise should give the opportunity to discuss a broader reform of the SGP in order to better incorporate into it the flexibility, differentiate the treatment of investments, introduce the concept of aggregate fiscal stance.

Without these elements, I don't expect that the unanimity required by art. 126.14.2 (paragraph 3 does not seem to ma an appropriate legal basis) would be required among Member States.

It is also important to clarify that for the Parliament it would be unacceptable any procedure which would not foresee a full participation as co-legislator, through a double legal basis between art 126.14.2 and 121.6 and a package model like the one followed for the SSM/EBA.

Far more important appear the larger horizon that the Commission is expected to cover.

On the possible scheme for sovereign bond-backed securities, I note noting the assessment currently done by market operators, which find very challenging to identify a market for those instruments in their current form without a degree of mutualisation that I understand would be very sensitive and controversial.

On the creation of a Permanent European Minister for Economy, we think that while this full fledge function requires a meaningful fiscal capacity, whose creation needs time, it would be appropriate to take the opportunity of the renewal at the Eurogroup for making use of the possibility of appointing a

Commissioner as its President, which would strongly enhance the institutional streamlining of the EMU process and the democratic accountability of that body.

As you can see, the discussion is touching upon decisive point, and as an economic governance to be good has to be democratic, I look forward to the dialogue and the cooperation between the European and the National Parliament and the debate we will having in this important conference.

Thank you for your attention.