

REDESIGNING EMU: WHAT AGENDA AFTER THE GREEK NEGOTIATIONS?

David Rinaldi | *Research fellow at the Jacques Delors Institute*

Eulalia Rubio | *Senior research fellow at the Jacques Delors Institute*

Emmett Strickland | *Research assistant at the Jacques Delors Institute*

This synthesis summarizes the debates which took place at the occasion of a conference organised by the Jacques Delors Institute and the MACIF on the subject of what improvements to bring to the Economic and monetary union in which Pierre Moscovici delivered a speech which may be found [here](#), before debating the subject with Xavier Ragot, President of the OFCE. The debate was introduced by Alain Montarant, President of the MACIF, and moderated by Yves Bertoncini, Director of the Jacques Delors Institute.

Having reached a third agreement on Greece's debt after several hectic months of draining negotiations, the European Union remains faced with important questions on how to improve governance within the Economic and Monetary Union. In order to explore the question of how to reform the Eurozone to make it more stable and prosperous, the Jacques Delors Institute in partnership with the MACIF, organized a conference titled "After the Greek psychodrama, what improvement for the EMU?". This conference, held on 25 September 2015 at the MACIF auditorium in Paris, featured a keynote speech by **Pierre Moscovici**, European Commissioner for Economic and Financial Affairs and former French Minister of Finances. The Commissioner's keynote speech was followed by the intervention of Xavier Ragot, President of the *Observatoire Français des Conjonctures Économiques* at Sciences Po and associate professor at the Paris School of Economics. The event closed with a public debate with the audience.

During the introductory remarks, Alain Montarant, President of Macif and Yves Bertoncini, Director of the Jacques Delors Institute, underlined the need for a serious political debate on deepening the EMU, a debate that must go beyond empty proclamations or easy commentaries and set the foundation for concrete action. The reform of the EMU is the construction site for a stronger and more stable Union; there is widespread agreement that for the Eurozone to be sustainable there is a need for more integration, but the precise architecture of that coordination still needs to be engineered. In this respect, Director Bertoncini recalled Jacques Delors' suggestion about the need for 'architects' to build Europe's future rather than just 'firemen' to solve crises.

Commissioner Moscovici stressed that we are at a decisive moment in European history and that the EU faces two crises which are very different in nature, one being Greece's debt crisis and the other being the question of refugee policy coordination. Despite their differences, these crises share some common traits as they both threaten European unity and propel centrifugal forces that boost populism and Euroscepticism across the continent. European institutions find it increasingly difficult to master these crises and the centrifugal forces that arise from them. The challenges are weighty and the Commissioner expressed his desire for some leading figure to pick up the beacon that Jacques Delors lit and contribute to the re-construction of the European Community.



1. Resolving conflicts of legitimacy

The speech delivered by Commissioner Moscovici¹ first focused on what the Greek crisis revealed about European governance before moving onward to outline the necessity for a profound reform of EMU governance.

Moscovici drew two main lessons from the negotiations of the third bailout program for Greece in June. The first lesson is the **difficulty of reaching agreements when radical parties play a leading role**. The Commissioner noted that partisanship always shapes negotiations in Europe but when the incumbent party is at the extreme of the political spectrum, it becomes a destabilizing factor. Partisan solidarity (that is, support from other parties of the same ideological family) does not work and antagonism tends to prevail over collaborationism and cooperation.

The second lesson is the **Eurogroup's inherent difficulty in making decisions**. The 20 meetings in the first 9 months of the new Commission's mandate, and the 9 meetings in the 45 days before the final agreement on the third bailout are a clear symptom of this malaise. According to him, the root of this malaise is the existence of a **conflict of national legitimacies**. As he noted, "the Eurogroup has 19 representatives, 19 positions and 19 democratic legitimacies". This was evident during the Greek negotiations: the Greek government justified its own position on the legitimacy gained from the decisive results of the referendum, but that clashed with the legitimate positions of the other 18 democratically-elected governments of the euro area. Conflicts of national positions happen all the time in Europe, but it is particularly sharp in the Eurogroup, which puts together 19 executives with neat, well-defined positions and no representation of national oppositions.

In addition to this conflict of national legitimacies, commissioner Moscovici highlighted two types of conflict of legitimacies which also played a role in Greek negotiations: i) **internal cross-period clashes**; multi-annual commitments made by one member state through the signature of a Memorandum of understanding (MoU) are expected to be binding but, as was the case for Greece with the first mandate to Syriza to form the government, conflicting agendas can arise; the Greek people wanted to change a program which other member states had agreed on and were not ready to review; ii) **clashes between national and Community interest**. In principle, the existence of different national positions should not prevent the emergence of a compromise based on the common EU interest. However, according to the Commissioner, the Greek negotiations have shown how EU leaders have lost the ability to strike compromises and find consensus. As he

put it, "the Eurogroup is not a place where national interests are overcome; it has become the arena in which they clash"².

2. Democratizing the eurozone

The diagnostic above led Commissioner Moscovici to turn to the democratic aspects of EMU governance. He noted that these are often marginal in the political debate in France despite being core part of the discussion in Germany and Nordic countries. He urges French authorities to focus on how to bring the Eurozone true democratic governance and participate in the European debate on the matter, as well as to come up with viable proposals.

Moscovici pointed out three main illnesses affecting the way of taking decisions in the euro area. The first is that **the common interest of the euro area is rarely defended**, as the Commission plays a marginal role in the Eurogroup and the European parliament is basically absent in discussions related to the EMU crisis. The second is the **lack of political accountability**. The President of the Eurogroup is not accountable to the European parliament, the Commission or any other legitimated institution and neither the European stability mechanism (ESM) nor the International monetary fund (IMF) are subject to democratic scrutiny. Illustrating this lack of accountability, he pointed out the fact that, in times of 'special' summits, the Eurogroup finished with a press conference of four (the president of the Eurogroup, the Commissioner, the president of the ESM and the representative of the IMF). Finally, there is **insufficient parliamentary control and important asymmetries in regards to the influence of national parliaments on EMU decisions**. Whereas ESM decisions must be ratified by the German Bundestag, many other democratically elected legislatures such as that of Italy have no say on the use of the ESM. This creates significant inequalities that can only be remedied by ensuring equal importance among all national parliaments.



To remedy these problems, Moscovici argued that the European Commission should be given a greater role in EMU governance. A closer involvement of the European Commission could ensure that the delineation of euro area's general interest goes beyond the sum of the interests of its 19 members. In particular, the Commissioner of Economic Affairs should become a sort of Minister of Finance for the euro area. This figure should chair the Eurogroup meetings and have capacity to manage Eurozone crises, and a dedicated financial budget for the Eurozone should be entrusted to him or her. Finally, with regards to the democratic control over euro area decisions, Moscovici was quite critical of proposals to create a democratic body composed of European and national deputies. He highlighted instead the need to reinforce the powers of the European parliament to control and supervise decisions on the EMU. Finally, he highlighted the need to pass through changes to the Treaty should not be seen as an obstacle but rather as an inevitable step.

3. Tackling EMU divergences

Xavier Ragot also agreed on the need to reconcile national interests with the general EU interest but focused on a different aspect: the growing divergences within euro area member states. Over the last 30 years, he argued, these divergences have increased to a point never seen before. Ragot highlighted that economic divergences, particularly in labor market outcomes and arrangements, are often the cause of divergent national interests and policies, and thus complicate the functioning of the Eurozone. As an example, he contrasted the situation of Germany, a largely export-driven economy with high employment with that of France, a state which suffers from some of the highest levels of unemployment in its recent history. Germany's efforts to keep its goods as competitive as possible in European markets comes at the expense of other member states. Thus, as he put it, highly-competitive export economies effectively "export unemployment" to other member states.

To put a remedy to that, there is a need to review the EMU architecture. In Maastricht, member states agreed on three types of disciplines: i) the discipline of competition, ii) monetary discipline with ECB independence and iii) fiscal discipline with the Stability and Growth Pact. However, nothing was agreed with regards to integration or shared rules on employment.

Professor Ragot renewed the invitation to consider closely two ideas outlined in the Five Presidents'

Report³. He looks favourably at the establishments of two new institutions which can help promote convergence:

1. **National Competitiveness Authorities** if properly designed could support convergence in social policies and labour market regulations across the European member states. To do so, it is essential that they bring in new forms of social dialogue and look at non-wage productivity and not only to diverging unit labour costs. He stressed that the latter are only partly responsible for the existing EMU competitiveness divide, and that the long term success of an economy cannot be ensured through a strategy based on wage depreciation. Ragot called on the harmonisation of labor competitiveness and employment rates between member states, reducing the wide gaps which exist between countries. According to him, this would require certain countries like Germany to lose some of their competitiveness in relation to other member countries, but this would be a valuable means of reducing the social tensions which exist between member states. To this very end, Professor Ragot put forward the idea of **an EU Ministry of Employment** which could be given specific responsibility over the promotion of convergence in Europe.
2. **A Coordination Method for National Budgetary Committees.** Professor Ragot explained how the economic crisis has highlighted the interdependence of fiscal policies among Euro area economies and the need to strengthen coordination beyond the strict respect of fiscal discipline rules. This requires the establishment of specific arrangements to ensure that national budgetary policies in the euro area are not harmful to the general interest. The 5 President's report proposal to create independent national budgetary committees is attractive; however, according to Ragot, it is important to make sure that national parliaments are strongly involved in this coordination. The ultimate goal of such coordination should be to ensure an appropriate aggregate budgetary stance for the whole area. This implies that contractionary measures in some member states should be matched with expansionary policies in others, so that member states with financial space sustain the demand when it contracts in other member states.

4. Beyond EMU: the financial transaction tax and the Juncker plan

In the exchange with the audience, Moscovici was asked about current efforts to realize a Financial transactions tax (FTT) in Europe. The Commissioner expressed confidence that an agreement on the FTT could be reached. He pointed out that, contrary to what happened in the previous years, the Commission is now actively supporting the task of the Group on Enhanced Cooperation and that the latter has allowed the group to progress substantially so that we are now close to an agreement. According to the Commissioner, efforts to create a Capital Market Union may also bring forward the agreement on the FTT and might eventually serve to expand the coverage of a future FTT (as enhanced cooperation on the FTT is now carried out by 11 countries only). Finally, he noted that, if created, a FTT might provide a common resource for a future euro area fiscal capacity.

The public debate also touched upon the Juncker plan; in the opinion of Moscovici, the Commission's flagship initiative to boost investment in Europe and create jobs brings a positive message. In times when the Union struggles to define common interest

on major issues such as the refugee or Greek crises, the negotiation and implementation of the European Fund for Strategic Investment (EFSI) displayed unity and common vision. Put to vote and approved in about six months only, it signals the potential of strong and shared political will. According to Commissioner Moscovici, through the EFSI, investment can be made available to both big corporations and SMEs and can actively support strategic sectors such as digital infrastructures and digital economy, energy, R&D, and not lastly, the EFSI can be a source for increasing investment in human capital across Europe. The Commissioner pointed out that there is also a non-financial aspect connected to the implementation of the EFSI: the investment plan is likely to change the habits of the EIB and promote a different investment culture in Europe. Close cooperation between the Commission, the EIB, national promotional banks and the private sector will help scaling up target projects. Furthermore, thanks to the guarantee made available by the Commission, the EIB is likely to end up funding more risky projects that it did before. This means that projects which would have remained on the shelf can now be financed and developed.

1. See Pierre Moscovici, *After the Greek psychodrama, what improvements for the EMU?*, Tribune, 30 September 2015.
2. Pierre Moscovici, *After the Greek psychodrama, what improvements for the EMU?*, Tribune, 30 September 2015, pag. 2.
3. Five Presidents' Report, *Completing Europe's Economic and Monetary Union*, European Commission, 2015

On the same themes...

AFTER THE GREEK PSYCHODRAMA, WHAT IMPROVEMENTS FOR THE EMU?
Pierre Moscovici, Tribune, Jacques Delors Institute, September 2015

AFTER THE GREEK DEAL: WHY IT IS URGENT TO COMPLETE EMU
Jacques Delors, Gerhard Cromme, Henrik Enderlein, Pascal Lamy, António Vitorino, Tribune, Jacques Delors Institute, July 2015

THE EU AND GREECE: CHANGING FRAMES AND PURSUING THE ODYSSEY
Jacques Delors, Pascal Lamy, António Vitorino, Tribune, Jacques Delors Institute, July 2015

THE EU AND GREECE: EXITING "IMF - EUROPE" RATHER THAN THE EURO
Yves Bertoncini, Tribune, Jacques Delors Institute, July 2015

IMPROVING EMU: OUR RECOMMENDATIONS FOR THE DEBATE ON THE FIVE PRESIDENTS REPORT
Yves Bertoncini, Henrik Enderlein, Sofia Fernandes, Jörg Haas, Eulalia Rubio, Policy paper No 137, Jacques Delors Institute, June 2015

Managing Editor: Yves Bertoncini • The document may be reproduced in part or in full on the dual condition that its meaning is not distorted and that the source is mentioned • The views expressed are those of the author(s) and do not necessarily reflect those of the publisher • The Jacques Delors Institute cannot be held responsible for the use which any third party may make of the document • Original version • © Jacques Delors Institute