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AVERTING TWO PITFALLS: ILLUSION AND INERTIA

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António Vitorino takes a stand on the issues on the European Council agenda for 27-28 June 2013, addressing structural reforms within the "European semester", the Franco-German contribution on EMU governance, plans for a banking union, the implementation of the Growth pact, the EMU's social dimension and the prospects of starting membership negotiations for Serbia and Macedonia.

1. The European Council is due to address the issue of structural reform at the end of the third "European semester": What can it do to make substantive progress on this issue?

The European Council will endorse the recommendations for reform proposed by the Commission for each EMU member country. These recommendations are both useful and important, because they concern the member states' budgetary, economic, and social choices which an attempt has to be made to bring into line with membership of a single monetary union better. In political terms, however, it is worth pointing out that major structural reforms are the province of the member states and that the EU can only make recommendations in that area, it cannot issue orders.

I think it is very important to make that point because the confusion that sometimes reigns over this issue is doubly counterproductive. A majority of citizens and of member states *de facto* feel that the EU does not enjoy the necessary legitimacy to enforce this kind of structural reform. And besides, we can see that even in the four "countries under programmes", where the EU has become a lender and thus has a say in the decisions, its legitimacy to influence major national economic and social choices continues to be questioned.

And indeed a look at the fate that tends to await the annual recommendations adopted by the Council shows that member states remain free to act in accordance with their understanding of the domestic political, economic and social situation. That may occasionally be regrettable in terms of the proper functioning of the EMU, but it is one more reason not to lend any further credence to the belief that the EU takes decisions which are not only illegitimate but also ineffectual...

In order to make progress, of course, we can attempt to work towards a preemptive coordination of major blueprints for reform in the areas of competitiveness, employment, financial stability and tax systems, as indeed the Commission has recently suggested. But above all, we need to take on board the awareness that we are facing a legitimacy issue which can only be resolved on the basis of purely political incentives. Hence the advantage of the tool for convergence and competitiveness that the European Council is getting set to debate once again. This kind of "super-cohesion fund", to use Jacques Delors's expression, would enable the EU to make a financial contribution to the implementation of national structural reforms, and thus to wield greater influence over their actual substance. This financial contribution would be particularly useful to make up for the time lag implicit in structural reforms which produce results in the medium term but which have a more immediate political and social cost.

2. What is your view of the Franco-German contribution formulated upstream of this European Council meeting, in particular regarding the proposal for a permanent president of the Eurogroup?

First of all, this contribution has the merit of showing that these two leading players in the euro zone are still capable of agreeing over the formulation of concrete guidelines for their partners, and this, in the context of an approach that transcends the north-south rift.

The initiative also shows that member states are starting to become more aware of the usefulness of coordinating their economic and social policies, not because "Brussels" tells them to do so, but because it is in their own very obvious interest given their economic interdependence. The proposals designed to define the follow-up indicators that the member states will really be able to adopt, for instance, are a move in the right direction, as are the plan to forge a common approach to such issues as the guaranteed minimum wage or the measures designed to foster intra-European mobility.

Where the governance of the EMU is concerned, the first thing I would like to underscore is the idea of allowing euro zone summits to rely on several of the Council's structures, including the Employment and Social Affairs Council. The proposal to institute a full-time president of the Eurogroup also appears to me to fulfil a need that is at once democratic and political.

It is democratic because, as we all saw when the bail-out plan for Cyprus was being debated, we cannot assign such important prerogatives to an organ in which no one really takes responsibility for the decisions taken. A permanent Eurogroup president will of necessity be accountable, including before the European Parliament. And in political terms, such a president will also be able very usefully to address the governance of that public asset known as the euro. He will help propose and implement the decisions that need to be taken at the Community level, working in close conjunction with the Commissioner for Economic and Monetary Affairs and on the basis of a share-out of tasks at once both clear and perfectly compliant with the Community method.

3. Europe's banks still seem to be in something of a tight corner, as the European Council gets set to discuss plans for a banking union again. What are your expectations in this connection?

A "banking union" remains the major priority in the short term because it will allow banks to support the euro zone's economies with greater vigour. It must also help to allay the fragmentation caused by the fact that interest rates accorded to small and medium businesses can be up to three times higher within the same "single market"…

A political agreement on the terms for assigning monitoring tasks to the ECB was thrashed out in April, thus it is highly likely that this "first pillar" in the banking union is going to be rapidly set up. The Economy and Finance ministers have recently also agreed on the possibility for the European Stability Mechanism (ESM) to directly recapitalise banks, and this is a crucial complementary measure to help states which get into even greater debt after rushing to the aid of banks teetering on the edge of bankruptcy. But the political agreement thrashed out still leaves something to be desired as it stands now.

First of all, governments have to share the burden of recapitalisation with the ESM, which will make it impossible to fully break the old vicious circle between sovereign debts and bank debts. Also, there is no guarantee that the countries will be able to take advantage of this tool retroactively, which would be important for the countries such as Ireland or Spain that have been worst hit by the bank crisis. And lastly, only 60 billion euro have currently been earmarked for recapitalising banks in the euro zone in order to safeguard the ESM's rating. But that sum is less than Ireland alone had to inject into its banks (64 billion) and not very much more than Spain obtained from Europe for its banks (41.4 billion). Thus the European Council would do well to review the terms of the current political accord and to adjust it in order to allow it to better reflect the magnitude of the current crisis.

As regards the resolution of banking crisis, the member states appear to have reached an agreement to harmonise their practices while boosting safeguards for the taxpayer in the event a bank enters the danger zone, as well as agreeing on the list of contributors on whose door to knock in such cases: the shareholders first and foremost, then the less well-insured creditors, then, if necessary, the so-called "senior" bond holders, and as a last resort, the account holders over the sum of 100,000 euro. But so far they have not managed to reach agreement on the degree of national flexibility that this mechanism needs to have. That is another area where it is to be hoped that the European Council hastily reaches a decision, because the absence of a reliable framework in the area of resolution would weaken the solidity and the credibility of common oversight.

On this basis, the Commission will be able to propose rapidly a Single resolution scheme managed by a European agency, before the EU can move on towards some form of common safeguard for deposits, which is also part and parcel of the gradual construction of a genuine European banking union.

4. The European Council will also be debating the implementation of the Growth Pact adopted a year ago. What needs to be done in that connection?

Bearing current economic prospects in mind, growth has to take pride of place on the European agenda, but going beyond mere slogans in this connection requires that we avoid two major pitfalls.

The first risk is the illusion that the heaven-sent gift of growth can simply fall out of the European sky. While the EU flag may be spangled with stars, it is at the national or even regional level that the main challenges need to be addressed in terms of competitiveness, growth and jobs (education, training, labour market rules, social protection methods and so on).

While the EU cannot do everything, it is nevertheless crucial that it mobilise all of the tools at its disposal in order to foster growth, because the second risk in this area is inertia. The ECB has demonstrated its ability to react by dropping its key lending rate to an all-time low (0.5 percent), but the delay in implementing the banking union is one of the factors hindering the transmission of this policy down to the level of the real economy. Where the Stability Pact is concerned, the Commission and the Council of Ministers also recently demonstrated their flexibility by allowing six countries extra time, but they did so with a detrimental delay compared to changing economic circumstances.

The most striking example of inertia, however, is that surrounding the implementation of the Growth Pact. For instance, of the 24 key Single market Acts measures proposed by the Commission, fewer than a dozen have currently been adopted by the Council and Parliament. As for the 120 billion euro mentioned in the Growth Pact, there is also a delay in committing them and thus in their having an impact. The failure to adopt the 2013 annual budget is hampering the efforts made in the area of structural funds; the European Investment Bank's (EIB) capital has been raised by 10 billion euro, but the 60 billion euro in additional loans has not yet been committed; and finally, while it has been possible to launch several "project bonds" in 2013, this has only been done to the tune of 230 million euro when the initial goal was to reach the figure of 5 billion euro in the medium term...

In this context, the only truly striking initiative recently adopted by the European authorities to bolster growth concerns the transatlantic trade and investment agreement. While the adoption of a negotiation mandate is a very welcome development, an agreement of this kind can only have an impact in the medium term because it will only be possible to sign it after negotiations at once both sensitive and very tough have been in hand for several years...

5. The "EMU's social dimension" is also on this European Council meeting's agenda. In your view, what does that social dimension cover?

It is only logical that if economic integration is more advanced among countries sharing the same currency, then those countries should be able to commit to deeper cooperation in the social sphere too.

In this connection, the struggle against unemployment, particularly youth unemployment, is the top priority. Measures have already been adopted to tackle it, in particular with a 6 billion euro package in the next multiannual financial framework. It is crucial for these youth support initiatives, especially the European Youth Guarantee, to be rapidly and firmly put in place. In the medium term, the plan to set up a cyclical stabilisation fund making it possible to allay the impact of the prevailing economic circumstances must also be taken into consideration, including on the basis of an insurance-based rationale. But of course, we must steer clear of European unemployment insurance plans formulated in such a way that they benefit some countries while others merely pay into them. Setting up a European mechanism of this kind benefiting the short-term unemployed, for instance, would be a way of making it relatively symmetrical (because any EU member state can face the kind of unemployment that is caused by a given set of temporary economic circumstances).

The crisis has also led to a sharp rise in worker mobility, particularly from the peripheral countries towards the centre of Europe. Thus the EU needs to strengthen its tools for assisting mobility (Eures and Leonardo da Vinci, for examples) and, at the same time, it must ensure that that mobility takes place in acceptable conditions. I am referring in particular to an improvement in the transferability of complementary pension rights and to stricter monitoring of the implementation of the posted workers directive. Given the difficulty in making progress at the EU level in certain areas, the euro zone countries should resort to enhanced cooperations, which other countries could also join, of course.

Finally, it would be a welcome step if the social side of the governance of the euro zone were to be strengthened: that would entail, in particular, holding euro zone social affairs and employment ministers' meetings on a more systematic basis (by setting up a kind of social "Eurogroup"), and increasing the role played by the social partners in the context of the European semester.

6. The European Council may also make a pronouncement on the start of membership negotiations with Serbia and Macedonia. What is your position on that issue?

These membership bids have the primary merit of proving that, despite the crisis, "Europe" still holds enormous power of attraction as a venue for reconciliation, for stability and for trade. They also remind us that the enlargement policy is one of the most important tools of the EU's missing "foreign policy". It is thanks to the fact that Serbia can entertain the prospect of membership that it has made every effort to hand over its war criminals to the International Criminal Court or, more recently, to thrash out an agreement with Kosovo.

But having said that, we have to make sure that in organising any future enlargements, we learn every possible lesson from those that took place in the 2000s, even if that may sometimes seem unfair to all the current candidate countries.

In particular, we need to be stringent in our monitoring of the legal, economic and political conditions to be met both when opening negotiations and when concluding them. The situation in terms of the elements forming the rule-of-law must be the object of a very careful and scrupulous examination, especially in those countries of south-eastern Europe that aspire to join.

The European authorities also need to devote more thought to taking responsibility for those European citizens or areas on which future enlargements might have a negative impact. A series of "Integrated Mediterranean Programmes" were put in place when Spain and Portugal joined, yet nothing of the kind was devised to mark the major enlargement in 2004. It is thus of the utmost importance, in both symbolic and concrete terms, for such spending adjustments to be planned ahead of membership on the Balkan countries' part.

It is on these political bases that the European authorities will be able the more easily to manage the internal and external dynamics in the enlargement sphere, and thus to continue to consolidate a union which needs to pull its weight at the global level today more than it ever has before.

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