

# JUNCKER'S LAST HURRAH

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Jean-Claude Juncker's State of the Union speech has been widely described as the last hurrah of an unrepentant federalist. Criticism labelling the speech unrealistic or even off the mark was to be expected. To be credible, a political programme must pass three tests: "what, how and with whom".

Let us start with the "what". Juncker's proposals for governance reform of the Eurozone reflect ideas already in circulation. To transform the European Stability Mechanism (ESM) into a European Monetary Fund, complete the banking union and establish a Eurozone budget and "fiscal capacity". Juncker, however, does not ignore the other side of the coin: the need to restore credibility to the fiscal discipline enshrined in the Maastricht treaty and subsequent decisions, dear to Germany and other likeminded countries.

The debate about the future of the Eurozone that is expected to start after the German elections will be shaped by two main themes: the need to strike the right balance between risk sharing and risk reduction as well as between a "political" and a "rule based" management of the Economic and Monetary Union (EMU). Concerning the first theme, while it is wrong to underestimate the importance of risk reduction (as many people do in Rome), it is equally dangerous to deny the very necessity of some instruments of risk sharing (as some people do in Germany). This is an extremist position that, if held in Berlin and other places, would derail discussions from the start. It nevertheless serves as a useful reminder of the mountain of scepticism will be hard to climb.

Which takes us to the "how". Juncker proposes the creation of a "Finance Minister" for the Eurozone that would combine the roles of Vice President of the Commission and Chairman of the Eurogroup. Not surprisingly, this is a controversial proposal that is likely to be challenged for different reasons both in Berlin and Paris. Whatever the other prerogatives of the Finance Minister, the whole concept would not make sense if it does not include the control and enforcement of agreed disciplines.

The Germans are right to point out that common rules have not been enforced properly and are known to be tempted to transfer the task to a "technocratic" body. The Maastricht treaty established a procedure that was essentially a "peer review" among governments with minimal involvement by the Commission. We all know this approach failed. Subsequently, among other reforms of the system that culminated in the Fiscal Compact as well as the two and six Packs, the role of the Commission in assessing the fiscal performance

of the member states has been considerably strengthened. It was not a display of federalist zeal, but rather a recognition that an entirely intergovernmental procedure did not work. We should not be surprised that the Commission is criticized by all: by some southern members for her obsession with "zero commas", by others for a use of "flexibility" that is too often discretionary in nature.

However, it is doubtful that the proposal to transfer the competence to a "technocratic" body would be more effective and less divisive than the present setup. This proposal is often accompanied by a suggestion of "decentralization" where market forces would be given a bigger role in determining if a member state's debt position is sustainable, possibly with an agreed procedure for an orderly default. Given the unpredictable and erratic behaviour of the financial markets, it is hard to see how such a solution could avoid permanent political confrontation and how it could work without a simultaneous strengthening of risk sharing instruments.

The French may also have problems with Juncker's proposal, but from a different angle. They clearly would like to see more and not less political discretion in the system. However, they are also known to have a traditional distrust for the Commission. They support the idea of a Eurozone Minister, but do not specify where he/she should be placed. Assuming, despite the flamboyant title, that the role would be independent from the Commission, he/she would in practice depend from the governments. These different roads would in effect lead to the same destination: back to the European Council, but without the political filter provided by the Commission. Far from handling the problem of a trust deficit among EU governments and countries, these solutions would probably make tensions worse. The truth is that, for all the criticism it deserves, the Commission's management of the crisis has improved the situation. The rules can and should be clarified, made more effective and their enforcement perceived as less arbitrary, but it would be an illusion to believe that we can do without the judgment of a political body independent from the governments.

Juncker goes a step further and puts on the table another controversial proposal: to merge the position

of President of the Commission with that of President of the Council. There is a strong logical link between this proposal as well as that concerning the Finance Minister. However, the former is more ambitious than the latter. A Finance Minister would be a practical, albeit bold, response to a concrete problem: the governance of the Eurozone. A single President for the EU would oblige Europe to confront the long overdue issue of the legitimacy of institutions. Of the two Presidents', one derives his/her legitimacy entirely from the Governments. The other is increasingly linked to the Parliament. To establish a credible bridge between the two will be extremely hard.

This leaves us with the critical question: with whom? Juncker bluntly reminded all countries, with the exception of Denmark, which has derogation in the treaty, that all member states must eventually join the euro. Although legally correct, such a statement is, to say the least, puzzling. The EU is confronted with three conflicting realities; Europe's own "trilemma". After Brexit, Europe must keep the 27 together. Most Europeans believe that the reform of the Eurozone should produce more integration. We must however accept that there are zero chances for this perspective to enjoy unanimous consensus. The prevailing answer seems to be multiple speeds. It is a practical solution, as it has the advantage of common sense and can certainly be useful to avoid vetoes when a solid core of countries wants to go ahead.

The question is: would it be sustainable in the long run? The outcome of the British saga seems to suggest it is not. The Visegrad problems are existential; if one looks

into them, they are not dissimilar from those that have accompanied the long and troubled history of British membership and have in practice resulted in some examples of multiple speed (i.e. the opt-outs of the UK and Denmark for instance). When the obstacle is existential, multiple speeds can only provide a useful template for a transition, not for a permanent solution. Juncker's reminder of the universal obligation to join the euro should be read in this context, particularly since it comes after some very strong words concerning the importance of the values that bind Europe together.

This contradiction explains Juncker's blunt rejection of separate institutions and even a specific budget for the Eurozone. These words are welcome for two reasons. The single market and monetary union are closely interconnected; the euro is first of all a logical consequence of the single market. There is no way to separate the management of one from the other. Flexibility is welcome and indeed necessary, one can have exemptions in the implementation of rules, but separate institutions would lead to disaster. Second, the Eurozone must remain open to new members; separate institutions would create walls. The implication is that, while multiple speeds can be a necessary way to make progress, they should not lead to a permanent multilevel institutional architecture. This will become more and not less true if and when a group of core countries moves in the direction of deeper integration.

This article was first published by the [Istituto Affari Internazionali](#).

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