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FOR A GENUINE ECONOMIC AND MONETARY UNION

LESSONS FROM THE INTERNATIONAL EXPERIENCE

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SUMMARY

The current Eurozone crisis is a systemic crisis and is pushing the European Union to look for a systemic solution. A blue print for a Genuine Economic and Monetary Union was proposed in 2012 by the four presidents of the European Council, European Commission, Eurogroup and European Central Bank, making quite bold proposals for four main areas: financial, economic, budgetary and political. A more detailed road map should be discussed in the European Council of June 2013.

More recently, the European Council of March 2013 defined the organisational and procedural rules of the Eurozone Summit, setting up the stage for a more in-depth discussion of this roadmap. This discussion should take into consideration some fundamental questions:

- Can a monetary union survive without a fiscal union and can this one work without a political union?
- Furthermore, can an economic Union be sustainable without a social dimension?
- The EMU, and, more generally, the process of European integration is now confronted with crucial choices.

This Policy Paper draws some lessons from the international experience of monetary, fiscal and political unions for the current to debate on the ways to complete the Economic and Monetary Union. It identifies:

- the basic conditions for a monetary zone to work;
- the main components of a fiscal union;
- the different choices to shape a fiscal union;
- the different choices of political union and the sui generis nature of the European Union.

This comparative framework is then used to assess the new instruments which were introduced so far in the EMU to respond to the Eurozone crisis. It can also be used to suggest how the current paradigm of mutual insurance can evolve towards a more Community approach.

Finally, several problems of the political processing are addressed: configurations, sequences, Treaty changes and possible narratives.

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1. Comparing the EMU with the International Experience

1.1. Can monetary integration work without fiscal integration?

What are the **basic conditions for a monetary zone** to work and survive? A rich and long international experience tells us two basic conditions are required[1]:

- sufficiently integrated markets and mobility of factors to facilitate a certain degree of convergence between Member States' competitiveness.
- monetary integration must be coupled with a considerable degree of fiscal integration.

"MONETARY INTEGRATION MUST BE COUPLED WITH A CONSIDERABLE DEGREE OF FISCAL INTEGRATION"

The current European debate recognises these two conditions but is divided about the importance to be given to the **convergence** objective as well as about the meaning to be given to **fiscal integration**:

- for some, this is just about defining and enforcing a common fiscal discipline;
- for others, this is also about coupling this common fiscal discipline with a common budget based on some common taxes and with better instruments to issue and manage public debt.

The available international experience shows that **fiscal unions** with shared currency have a **basic set of similar features**:

- common principles of fiscal discipline in the sub-central governments;
- in this common framework, sub-central governments enjoy different degrees of fiscal autonomy to meet their financial obligations with their own fiscal resources;
- a central government with a relevant budget based on own tax resources and a Treasury in charge of issuing common debt.

The **roles of this central government budget** are usually the following:

- a macro-economic stabilisation and anti-cyclical function to protect regions under asymmetric shock, whatever their relative level of wealth (richer or poorer regions);
- a mutualisation of risks if there is mutualisation of the decision-making, notably on issuing public debt;
- a redistributive function, involving a transfer of resources from more competitive and wealthy regions to less competitive and wealthy ones. A VFI (vertical fiscal imbalance) between income and spending is accepted to enable this redistribution, provided that free rider and moral hazard are prevented[2].

The **fiscal union in the European Economic and Monetary Union** has precise principles of a common fiscal discipline, but:

- its macro-economic stabilisation function remains very weak, because its instruments at national level are now reduced to a very tight fiscal room of manoeuvre and they are not complemented by instruments at European level.
- it is silent about the need of a eurozone budget and its possible roles. The discussion about equipping the eurozone with some kind of "fiscal capacity" has just started.
- it is still incipient about the possible ways to mutualise risks and decision-making about debt issuance. The European Stability Mechanism is used to issue eurobonds at small scale but the discussion of conditions to issue eurobonds at larger scale is being postponed.

The EU Community budget plays a re-distributive role but only at a small scale.

1. Castells, Antoni and EUROPE G-Opinion and Discussion Group on Political Economy (2012), Is the European Union really moving toward a Fiscal Union?, Barcelona: EuropeG, p.1.
2. Hueglin, Thomas O. and Alan Fenna (2006), Comparative Federalism – A Systematic Inquiry, Quebec City: Broadview Press Ltd.

1.2. The sequencing between monetary, fiscal and political union

It is also important to analyse the sequence of steps to build this combination between monetary union, fiscal union and political union, according to the available international experience. This sequence has started with a political union first, a fiscal union after and a monetary union only afterwards.

The sequencing depends of course on concrete historical circumstances. In the American case or Canadian case, political union was a normal consequence of the Wars of Independence and fiscal union first was necessary to meet the costs of these wars. In the case of the European integration, the predominant dimension which was chosen to consolidate peace after World War II was the economic one, with the single market leading to the need to adopt a single currency afterwards.

This was probably the only possible way to start European integration, but the problem is that the political and fiscal dimensions, which were considered since the beginning, have always remained at an embryonic level. This is particularly clear in the Maastricht Treaty, where the Economic and Monetary Union was enshrined but coupled with **limited concepts of fiscal union and of political union**. The vote of European citizens can just influence a tiny Community budget (1% of EU GDP), with even less own resources, and which is used to support some European programmes and make some regional redistribution in the European Union.

1.3. Choosing between different types of fiscal union

However, there are **different types of fiscal union**. It is also particularly relevant to compare both European and international experiences regarding the political deal which was historically forged to underpin each type of fiscal union.

In the typical American case, the Hamiltonian deal involved two crucial points which have equipped the Federal government with a budget, own taxes and a Treasury:

- the American States accepted to transfer part of their tax collection power in exchange of the Federation assuming their excessive debts (due to the Independence War effort);
- the American States accepted rules of fiscal discipline and no federal bail-out in the future in exchange of counting on the role of a federal budget (which became bigger particularly after the New Deal in 1930).

Therefore, in the American type of fiscal union, the States have a relative fiscal autonomy, but they need to ensure their credibility because they are exposed to market pressure and they cannot count on bail-out mechanisms.

Nevertheless, there is another type of fiscal federalism where States need, on the one hand, to comply with the strict fiscal rules and decisions taken at federal level but, on the other hand, they can count on a federal budget and bail-out mechanisms in case of difficulty[3].

> “THE COMMUNITY BUDGET REMAINS VERY LIMITED AND WITHOUT CAPACITY FOR MACRO-ECONOMIC STABILISATION”

The European case so far is a hybrid one, combining the decreasing fiscal autonomy of Member States with the building up of a last resort mechanism for bail-out with a strong conditionality for fiscal discipline. However, the Community budget remains very limited and without capacity for macro-economic stabilisation. Furthermore, both the bail-out mechanism and the Community budget are mainly based on national guarantees and contributions.

3. Castells and Europe G, *op. cit.*.

1.4. Choosing between different types of political union

That is why we also need to compare the European and the international experience regarding the **political union**.

First of all there are two different kinds of **federalisation process**[4]: through dis-aggregation as in Belgium today or through aggregation as is USA or Germany. We will focus on the second one.

Building up of a federation needs to be analysed as a process which can produce a **continuum of constitutional arrangements** from an alliance, a league, a confederation to a federation. Beyond the socio-economic federalism proposed by Proudhon in the 19th century, there are **two main historical traditions** to bring together different entities[5]:

- the "republican federalism" forged by Hamilton, based on citizens' rights and duties, elected federal government and parliament, and check and power balances between the three powers
- the "consociational federalism" forged by Althusius in Germany in 17th century, based on the principle of subsidiarity and a governance by a council of States representatives.

These two traditions have led to two basic different types of federalism and political union[6]:

- the divided federalism (as in USA), where the States have full competences in some policy fields, but are complemented by the full competences of the Federal level in other policy fields;
- and the integrated or cooperative federalism (as in Germany), where States participate in the federal policy-decision and implementation in most of policy fields and therefore, where the federal level depends on the State level to implement most of its decisions.

The European Union **is not a federation for many reasons** including a basic one: the Member States and not the European citizens remain masters of the EU Treaties[7]. But against this comparative background we can conclude that the European Union, as it is now defined by the Lisbon Treaty, **is closer to the German type of political union** because:

- in most of the policy fields, the competences are shared between the Union and the Member States and the implementation of the EU decisions depend on the Member States means of implementation;
- Member States have an even stronger influence on the European level decision-making – when compared with the German Länder in the Bundesrat – because the European Council and the Council of Ministers remain the central decision-making bodies in the European Union.

"THE EUROPEAN UNION (...) IS CLOSER TO THE GERMAN TYPE OF POLITICAL UNION"

In fact, the EU offers a unique type of government, which is mainly **council-based**, whereas the German or the Canadian are more parliamentary based and the American more president-based[8].

Nevertheless, the Lisbon Treaty has also extended the policy areas covered by the so-called "normal legislative procedure", where the proposition role by the European Commission and, most of all, the legislative role of the European Parliament are stronger. Moreover, the Lisbon Treaty has also included a Charter of the European Citizens Fundamental Rights.

Furthermore, the Lisbon Treaty has explicitly introduced the election of the President of the European Commission by the European Parliament after being proposed by the European Council. The Lisbon Treaty is even admitting that the same person can be elected for the posts of President of the European Commission

4. Croisat, Maurice and Jean-Louis Quermonne (1996), L'Europe et le fédéralisme, Paris: Montchrestien.
5. Hueglin and Fenna, *op. cit.*.
6. Hueglin and Fenna, *op. cit.*, pp 51, 60, 63, 162.
7. Börzel, Tanja A. (2005), Federalism is Dead – Long live Federalism! (EPS Forum:Debating Europe and Constitutionalism in the European Union), Philadelphia: European Politics & Society Section of the American Political Science Association.
8. Hueglin and Fenna, *op. cit.*

and President of the European Council. In any case, this gives European citizens a stronger role in the election of the EU executive power.

We should also bear in mind that the territorial representation in the European Council, the Council and the European Parliament is completed by the Committee of Regions and complemented by the socio-economic representation in the European Economic and Social Committee.

Hence, the European Union is a complex and dynamic construction driven:

- by **centripetal forces** shaped by the European Parliament and the European Commission supposed to represent the "Community interest";
- and by more **centrifugal forces** driven by the Council (an implicit second chamber), where national interests are more formally represented[9].

"THE CONCEPT OF 'FEDERATION OF NATIONS-STATES' (...) SEEMS PARTICULARLY SUGGESTIVE AND APPROPRIATE"

That is why the concept of **"Federation of Nation-States"** coined by the former President Jacques Delors seems particularly suggestive and appropriate.

New challenges and particularly the need to overcome the eurozone crisis are pushing this construction to **new developments**:

- the need to strengthen the **instruments at European level** in different policy fields: financial supervision and regulation debt management, investment, energy, trade and external action;
- the need to create a clearer **chain of command in the executive power** and particularly in the eurozone;
- the need to **politicise the choices for European citizens**, and hence a stronger role to be given to European political parties in shaping the executive and legislative powers;
- the need to **empower and engage European citizens** about these political choices.

2. Implications for a Genuine Economic and Monetary Union

2.1. Completing the EMU Architecture: the Key Issues

Against this comparative background, we can better highlight the rationale behind the current debate on how to complete the EMU, which was introduced in the European Council table by the document **"Towards a Genuine EMU"** coordinated by the President Van Rompuy involving the Presidents of the European Commission, the Eurogroup and the European Central Bank.

Four basic frameworks were identified to complete the EMU: financial, economic, budgetary and political.

In the **financial framework**, what is fundamentally at stake is to complete the monetary union with more European integration regarding **financial supervision and regulation**, in order to restore the conditions for normal circulation of capital and cross-national investment in the euro area and for more responsible lending and borrowing.

In the **economic framework**, the European **strategy for a new growth model greener**, smarter and more inclusive should be translated into a more effective coordination of national policies involving reforms and investments. A better follow-up and correction of the macroeconomic imbalances between Member States

9. Ricard-Nihoul, Gaëtane (2012), Pour une Fédération européenne d'États-nations – La vision de Jacques Delors revisitée, Bruxelles : Larcier.

should be also included. And another central objective for deepening the economic union should be to improve economic, environmental and social performance with **more convergences** rather than **more divergences** between Member States.

This will be **impossible to achieve if in the budgetary framework** the rules for common fiscal discipline are not complemented with a eurozone budget based on European taxes and providing the conditions for macro-economic stabilisation and for a eurozone Treasury to issue common debt via eurobonds.

Why impossible?

- Because **different specialisation patterns are and will expose the eurozone Member States to different asymmetric shocks**, which can no longer be overcome only by national instruments.
- Because **the investment needs to ensure catching up and a certain level of convergence are different between Member States**. Therefore, national resources for public investment need to be complemented by some European resources in order to enable more real and structural convergence in the eurozone. The other – alternative or complementary – possibility would be to use this European Treasury to issue national debt via eurobonds.

In any case, the legitimacy to decide about a eurozone budget, European taxes and European debt issuance can only come from a European democratic body representing the European citizens and electing a European executive body. These are new tasks for the European Parliament and the European Commission.

Nevertheless, the way to combine these new tasks with the current European Council and Council of Ministers in their legislative and executive roles, and particularly, the way to develop a European government will define **whether the current Federation of Nation States will evolve to a (a) more federal architecture or (b) a more inter-governmental one.**

2.2. The New Instruments of the EMU: a Critical Assessment

"THE EUROPEAN DIMENSION HAS MAINLY BEEN UNDERSTOOD AS JUST A SUM OF THE NATIONAL DIMENSIONS

So far, the instruments which have been developed to cope with the euro zone crisis have been designed more in the intergovernmental direction. Even when setting a new balance between national responsibility and European solidarity, the European dimension has mainly been understood as just a sum of the national dimensions. A paradigm of "mutual insurance" has been preferred to a more federal or "Community" paradigm[10]:

- In the **European instruments to rescue Member States in risk of sovereign default.** When this Greek crisis irrupted in 2010 an already existing instrument was considered: the EFSM, the European Financial Stability Mechanism, which had been created to deal with the balance of payment problems of the non-eurozone EU Member States, but which could be easily adapted to the eurozone members. This mechanism is managed by the European Commission and can make loans to the Member States with the new resources it can mobilise in the markets by issuing eurobonds with a guarantee provided by the Community budget.
  This typically "Community" solution remains active (now for Ireland and Portugal) but is kept in small size. A new instrument was instead built from scratch, starting with EFSF and now enshrined as permanent in the Lisbon Treaty: the European Stability Mechanism. It is based on national financial guarantees to be authorised by the national parliaments each time a new loan needs to be decided, and to be attached to tough conditionality.
- In the **European mechanism to rescue banks**, as far as this will also depend on this European Stability Mechanism.

10. Pisani-Ferry, Jean (2012), Assurance mutuelle ou fédéralisme : la zone euro entre deux modèles, Brussels : Bruegel.

- In **national fiscal policies**, which are being framed with tighter rules by the new regulations to reform the Stability and Growth Pact ("Six-Pack" and "Two-Pack") and particularly with the new Intergovernmental Treaty on Stability, Coordination and Governance. Nevertheless, the coordination of spill-over effects of the national fiscal policies remains very weak, and an aggregate fiscal policy for the eurozone is not even conceptualised.
- In the new **process of macro-economic surveillance**, this one is mainly focused on the macro-economic imbalances of each national case, implicitly assuming that the ideal situation would be each Member State to have a surplus in the current account and even in the balance of payments as a whole. This, if ever possible, would make Europe a very competitive economy but also a worrying factor of global imbalances… This new process of macro-economic surveillance is certainly very useful to identify national problems to be addressed, but should also consider the spill-over effects notably between deficit countries and surplus countries in the eurozone, as well as be used to discuss the most appropriated policy-mix for the eurozone as a whole.

The economic implications of this new architecture are the following: from now on, **it is possible to reduce the spreads of sovereign debt and private credit, but it is not possible to reduce the divergences between Member States regarding investment rates, growth rates and unemployment.**

The final economic outcome of this situation is that some Member States have **lost the basic conditions to implement the common EU Strategy for a new growth model** (Europe 2020 Strategy), replacing it by a worrying destruction of viable companies and viable jobs triggering a dis-organised emigration flow with brain-drain.

And the final political outcome of this situation is that national policies of some Member States are now **more shaped by the national parliaments and governments of other countries** (the creditor ones). One can naturally ask for how long this situation can be sustainable in economic, social and political terms… **The nature of the European integration seems to be changing.**

2.3. Redesigning the Instruments for a Sustainable EMU

"IT IS TIME TO CONSIDER A MORE SYSTEMIC AND COMMUNITY APPROACH FOR A CRISIS WHICH IS SYSTEMIC"

The current new instruments were **forged in extreme situations**, where the choice was between a collective abyss and a patch-worked solidarity.

Now, that the risk of eurozone break-up seems less dramatic but the crisis is far from over, **it is time to consider a more systemic and Community approach for a crisis which is systemic**.

Against the previous background, this approach can be logically developed according to the following steps and building on the existing instruments:

1. All EU member states and therefore all eurozone members should have the **conditions to implement the EU strategy for a new and more sustainable growth model, greener, smarter and inclusive**. This requires **a particular combination of investments and reforms** which should be coordinated at European level according to the new schedule defined by the so-called **European semester**. This means that the consistency of national policies with the European policies is to be checked at European level before final adoption by the national governments and parliaments. This should also be used to **identify the kind of European support** which should be provided to complement the national effort.
2. The same should happen with the solutions to address the **macro-economic imbalances**, and which should combine national efforts with support by a **eurozone budget**, in case of asymmetric shocks. On the top of this surveillance of national imbalances, a **more general macro-economic coordination** should take place in order to define the better policy-mix for the eurozone as a whole.

3. The fiscal coordination should supervise the national efforts for **fiscal consolidation** as well as identify the needs for complementary European support.
4. The European support for investment and **structural convergence** should be provided by the EU Community budget via the Community programmes or the structural funds, to be aligned with the Europe 2020 Strategy.
5. The European **support for macro-economic stabilisation** which is required to address specific problems of the eurozone should be provided by a **complementary eurozone budget** based on eurozone taxes and borrowing in the markets via Eurobonds issuance.
6. The European support via the Community budget or via the eurozone budget should attached to a **conditionality** to be aligned with the EU priorities – assuming they are defined in a balanced way.
7. The **European Stability Mechanism** should focus its activity on a rescuing role regarding sovereigns. When requested by a eurozone Member State, and under conditionality, it should also use its capacity of issuing eurobonds to buy in the **public debt primary markets.**
8. The European Council, the Council, the European Commission and the European Parliament **should organise themselves internally** to deal with the eurozone issues more effectively. The national parliaments should also be better involved insofar they frame the national governments positions at European level.

"A BANKING UNION (...) IS A CRUCIAL PILLAR TO OVERCOME THE EUROZONE CRISIS"

We also assume that the ongoing process to build up a **banking union** with a single supervisory system, a bank resolution mechanism and a harmonised deposit guarantee will be completed soon, as this is a crucial pillar to overcome the eurozone crisis. This means that all over this process, the ECB will build up a new role dealing more specifically with financial stability.

2.4. Including a Social Dimension

What kind of social dimension is necessary to ensure the long term sustainability of the EMU?

When the EMU was defined in the EU Treaties, it was assumed the basic conditions for its sustainability would be a monetary zone coupled with stronger common fiscal discipline and which will be combined with other already existing Community instruments, notably:

- A single market with more mobility of factors pushing for real convergence on competitiveness;
- A set of some common basic social standards defined by Community law;
- A Community policy for social and economic cohesion;
- A Community budget financing this policy;
- The support to social dialogue at European and national level.

Hence, it is important to underline that the original EMU was already counting on some instruments with a social purpose.

Nevertheless, we should now ask if these existing instruments are sufficient to ensure the EMU long term sustainability in economic, social and political terms. This assessment should be based on the EMU capacity to keep its internal consistency by responding to different types of challenges:

1. First challenge: **cyclical divergences** created by asymmetric shocks hitting particular regions or counties due to their pattern of productive specialisation. This kind of cyclical divergences in terms of growth and employment rates will always exist due to a natural – and desirable – variety of productive specialisations. In other monetary zones, these divergences are reduced by federal instruments for macroeconomic stabilisation. In the EMU, the corresponding national instruments were reduced to a small room of manoeuvre in the budgetary policy and there are no instruments at European level. This means that if a eurozone Member State is hit by an asymmetric shock, there are few means to avoid the social impact in terms of wage and benefit cuts and job losses.

2. Second challenge: the higher pressure of globalisation and the need to move to a new growth model more knowledge-intensive and less carbon-intensive, adapting structures and preparing people to new jobs. This transition requires an important amount of new investments and structural reforms – in business framework conditions, labour markets, social protection, education, innovation systems – which should be better coordinated at European level, because they have many spill-over effects. So far, the divergences between the eurozone Member States have increased by lack of investment means and coordinated reforms. These **structural divergences** in competitiveness have led to macro-economic imbalances which were not identified and corrected in time.
3. Third challenge: the recent financial crisis leading to a general credit crunch and magnifying the macro-economic imbalances which were already building up in the eurozone. More recently, the crisis of the eurozone interconnecting high sovereign debt with high bank debt has created **cumulative divergences** between Member States regarding financing conditions, investment rate, growth rate, unemployment rate and sustainability of welfare systems. Instruments which were created so far – notably the European Stability Mechanism and the new ECB instruments – are able to reduce divergences regarding financial conditions, but not the other divergences regarding growth and social indicators.

If these EMU flaws are not addressed, the most likely sequence of events will be:
- In the most vulnerable eurozone countries: important reduction of wages, social benefits first; followed by important jobs losses triggering a recessive spiral; uncontrolled emigration;
- In the other eurozone countries, increasing pressure on their social standards; risks of social dumping;
- In the EU as a whole, erosion of existing instruments to provide a social dimension; reduction of the aggregate internal demand, shrinking of the internal market; systemic pressure towards lower growth or recession.

> "STRONGER INSTRUMENTS FOR A SOCIAL DIMENSION IN THE EMU"

In order to reverse these trends, the EMU should be completed regarding its missing instruments in the financial, fiscal, and economic area as well as in its social dimension. It can certainly be useful to make full use of the social instruments previously referred. But the current financial and economic pressure is so high that they will be eroded if they are not complemented by some stronger instruments for a social dimension in the EMU:
- Refocusing on the social objectives defined by the Europe 2020 Strategy and to be implemented by the European Semester;
- Defining a clear set of social standards;
- Introducing additional social indicators for macro-economic surveillance;
- Developing a macro-economic coordination to improve the overall policy-mix with a symmetric approach (deficit and surplus countries);
- Improving the coordination of the major structural reforms;
- Improving the coordination of main priorities of social policies (using the integrated guidelines);
- Improving the framework conditions for internal migrations with better social integration (portability of rights, etc.);
- Developing social investment notably in training, active labour market policies, child care;
- Defining the room of manoeuvre for this social investment in the investment rules of the SGP;
- Creating a fiscal capacity with instruments for macro-economic stabilisation in case of cyclical shock and with instruments to support priority reforms;
- Creating a Eurogroup of Social Ministers.

Wage adjustments, job losses, migration, structural reforms but also investments, job creation and income transfers will also certainly be ingredients of the next life period of the EMU. But there is a big political choice to be made about the axis which will be preferred:
- Either a **eurozone of internal divergences** with deep internal contrasts regarding wages, social benefits, unemployment rates and migration flows;

- Or a **eurozone of internal convergences**, with more coordinated reforms and investments, and with upward trends in growth, employment, inclusion and social sustainability. Nevertheless, in the current financial situation this can only be possible if a banking union makes real progress and if some kind of eurozone fiscal capacity is defined.

3. The Political Processing: Configurations, Sequences and Treaty changes

This development of the EMU architecture should involve not only all eurozone Member States but also, by appropriate means, all EU Member States willing to take part of this monetary zone. This crucial development for the European integration should be kept as inclusive as possible.

The legal solutions should first exhaust all the possibilities open by the Lisbon Treaty, notably the Article 136 which is specific for the eurozone and the method of enhanced cooperation which allows to move forward with all Member States willing to do so.

Nevertheless, some of the new instruments can overcome the limits of the Lisbon Treaty and, in this case, other solutions should be considered: either a proper revision of the EU Treaties based on a European Convention or if, this is not at all possible, an Intergovernmental Treaty designed to be included in these EU Treaties as soon as possible.

“THE NEXT EUROPEAN ELECTIONS WILL BE CRUCIAL TO DEFINE THE MANDATE FOR THE EU TREATIES REVISION”

In any case, the next European elections will be crucial to define the mandate for the EU Treaties revision which is needed. In the meantime, all the possible steps should be taken to develop this new architecture according to a sequence which should be able to:

- to disentangle the sovereign crisis from the banking crisis. The ECB can play a key role by intervening in public debt secondary markets and by strengthening banks supervision;
- at the same time, to shift to a better balance between investment, growth and jobs creation on the one hand and fiscal consolidation on the other hand;
- to use these new conditions to pursue the necessary structural reforms for a more sustainable growth model with more political support and strategic consensus between the key stake holders.

The message and narrative to support all this process should provide a simple but comprehensive view on basic principles which can ensure the long-term sustainability of the eurozone. They seem to be:

1. **Fiscal responsibility** coupled with a last resort **solidarity** regarding sovereign debt;
2. A **reformed financial system** to ensure financial stability and foster growth;
3. A stronger coordination of economic policies combined with structural reforms to promote a new kind of **growth**;
4. The reduction of internal divergences. On the long term it is difficult to ensure the nominal **convergence** between the eurozone members without increasing their real convergence;
5. **Democratic** decisions at European level about all this.

This narrative should propose these principles as kind of new deal we need to really overcome the eurozone crisis and to reset a credible and appealing path for the European integration.

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