

EMI Background Briefing

Economic Monetary Union and the Four Presidents Report

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Looking forward to the Four Presidents Report

At the European Council on 25-26 June, the Four Presidents' Report on the Economic and Monetary Union (EMU) will be presented to EU leaders. The report, drafted by the Presidents of the European Commission, European Council, European Central Bank and the Eurogroup, will present the next steps on better economic governance in the euro area. In anticipation of this report, this **EMI Background Briefing provides background on the EMU and information on the preparation of the report.**

In several political resolutions, the **European Movement International** has called for the strengthening of the EMU, proposing different measures. In [2014](#), an EMI resolution on Europe's long-term economic future called for structural reform, which would equip the EU with the capacity to deal with future crises. In [2012](#), a resolution drawing lessons from the financial and economic crisis and their implications for the future of the EU was adopted. In [2011](#), the EMI called for a political and fiscal union to complete the monetary union. In [2010](#), a discussion paper titled 'From the Monetary Union to an Economic Union' was adopted, calling for the establishment of a High Representative for fiscal and

economic policies.

Crisis in Europe: stabilising the EMU

Over recent years, an extended period of recession, chronic unemployment and deepening social inequalities have created a crisis of integration in Europe. The priority over the past five years was to prevent the system from immediate collapse, but *ad hoc* reforms failed to stabilise the EMU. Now that the acute phase of the crisis is over, the focus must be shifted to designing a permanently stable and prosperous EMU. In hindsight, it is evident that the flawed setup of the EMU was a contributory factor in the depth and scale of the crisis.

There have been several reports calling for a more concerted move towards economic and monetary union since the 1970s (for example, the 1970 Werner Report and the 1989 Delors Report), yet efforts thus far have been insufficient, proof of which is provided by the depth of the current ongoing crisis. The guidelines for today's EMU structure and membership were set out in the Maastricht Treaty.

Many measures have been taken since 2010 to strengthen the resilience of EMU, such as:

- The establishment of the European Stability Mechanism (ESM), which functions as a permanent crisis mechanism tool.
- Developments have been made in the direction of a Banking Union, with the ECB taking a supervisory role in the Single Supervisory Mechanism (SRM), directly supervising all significant banks in the Eurozone. The SRM allows for the orderly resolution of banks (restructuring in order to preserve financial stability and viability in the case of possible bank failure) and has put in place the necessary tools for burden-sharing between shareholders and creditors.
- A Macroeconomic Imbalance Procedure (MIP) has been put in place to detect the development of macroeconomic vulnerabilities early on and provide instruments to correct them.
- The reform of the "Stability and Growth Pact" in 2011/2013, which aimed to encourage member states to pursue sound public finances and coordinate their fiscal policies, and agreement on the "Fiscal Compact" which strengthened independent surveillance of the euro-area Member States.
- Eurostat powers were strengthened in 2011 with regard to statistical data used

for the excessive deficit procedure, meaning that Eurostat is now entitled to examine Member States' public accounts and to make on-the-spot investigations.

Plans for further reform: strengthening the EMU

Over recent years, there has been a realisation that an incomplete monetary union is one of the main reasons that the Eurozone has not recovered from the 2008 crash as effectively as the USA, which has a more complete institutional framework in place. This led to the [Commission's Blueprint for a Deep and Genuine EMU](#) (published in November 2012) as input for the first Four Presidents Report [Towards a Genuine Economic and Monetary Union](#) (December 2012). The Communication and Report continue to provide an important basis for the debate on strengthening the EU's economic governance, although no substantial action was taken on the basis of the first Four Presidents Report.

The Juncker Commission took office with clearly outlined priorities. Their first priority was to address the crisis immediately with the [Investment Plan for Europe](#), presented in November 2014 and based on the conviction that increasing private and public investment are important components in overcoming the crisis. The plan should mobilise at least EUR 315 billion of additional investment over the next three years (2015-2017), and aims to improve the Single Market by removing sector-specific or other financial barriers to investment.

To deal with the crisis on a more structural level, however, the Juncker Commission also set the priority to continue the reform of the EMU and create a deeper and fairer Economic Monetary Union. Thus, in February of this year, Juncker presented his [Analytical Note on the Economic and Monetary Union](#), prepared in close cooperation with the President of the European Council, Donald Tusk, the President of the Eurogroup, Jeroen Dijsselbloem, and the President of the European Central Bank, Mario Draghi, in preparation for the "Four Presidents Report" on the future of EMU

The "Four Presidents' Report" will aim to deal with divergences in the institutional setup of the EU, such as the fact that monetary policy is decided jointly at the European level, whereas economic and fiscal policies remain, to a large extent, within the Member States' remit. The Analytical Note identifies the main shortcomings of the EMU framework that were revealed by the crisis, and describes the measures taken so far to

address them and prepares the ground for a discussion about the next steps.

The Analytical Note states that governments must implement “a consistent strategy around the “virtuous triangle” of structural reforms, investment and fiscal responsibility.” Although the Analytical Note does not go so far as to mention Treaty change or the establishment of a separate Eurozone budget, it does pose 12 critical questions for Eurozone leaders, such as “To what extent is the present sharing of sovereignty adequate to meet the economic, financial and fiscal framework requirements of the common currency?” and “How can accountability and legitimacy be best achieved in a multilevel setup such as EMU?” The Note explores issues including whether new policy instruments are needed for situations in which governments continue to “go harmfully astray” despite the new governance framework and whether the Eurozone should co-ordinate tax and spending powers through a common finance ministry.

The main objectives of Juncker’s Note are: stronger democratic legitimacy in decision-making with enhanced parliamentary control at EU and national level; greater awareness of the social costs of austerity; review of the fiscal and macroeconomic surveillance legislation (six-pack) and the new budgetary rules (two-pack); and encouraging further structural reforms in Eurozone countries.

The Note’s main proposals for improvement are geared towards how to make the Eurozone more shock-resilient and prosperous in the long term, yet the Note acknowledges that the main difficulty is that governments’ commitment is high during crisis but tends to wane as the economy recovers. The report recommends that the functioning of the single market be strengthened, that barriers to free trade be lifted and streamlined, and that labour mobility be enhanced.

Four Presidents’ Report: what it could entail

In commentaries and studies, stakeholders and scholars have put forward different ideas on how the Economic and Monetary Union could be restructured and strengthened.

- Scholars argue that the EU’s economic governance must rethink the **relationship between solidarity and conditionality**. The EU needs a scheme that ensures a lender of last resort without creating incentives for irresponsible fiscal policy.

- More needs to be done to **close the accountability gap at the supranational and national levels**, with stronger parliamentary involvement in economic decision-making. Increased emphasis must be put on establishing stronger mechanisms of control needed to render EU economic governance legally and politically accountable. For example, at present, no mechanism of accountability before the European Parliament exists for the President of the Eurogroup. There has been talk of the creation of an **EMU Committee** within the European Parliament. In addition, in order to increase the political accountability of decision-making in relation to EMU, action must be taken to **more clearly define the responsibilities** of the various actors, as there is currently a blurring of the boundaries between the roles of the Commission, the Council and the Parliament. This would also help to **close the capability-expectation gap** which often rises in relation to EMU governance.
- There have been calls for the creation of an “**EMU Finance Minister**” responsible for the development and implementation of EMU economic and fiscal policy, perhaps by merging the positions of President of the Eurogroup and Vice-President of the Commission. The post should be democratically controlled and sanctioned by the European Parliament.
- Calls have been made for a well-designed mechanism of **fiscal transfers** between Member States using the euro. This effectively refers to a fiscal capacity for the Eurozone as a way to deal with asymmetric shocks.
- More needs to be done to **address the social aspect of EMU**. A true EMU will entail burden-sharing amongst member states, which will necessitate a drive toward stronger solidarity between states. The Analytical Note comments on the social costs of austerity programmes and concludes that there should be a way of “evaluating support and reform programmes not only for financial sustainability but also for their impact on citizens of the country concerned.” In light of the financial crisis, scholars have been arguing for the **rediscovery of Europe’s social model**, starting with concrete initiatives in the fields of minimum wage standards, labour market policies, retirement and education. (For more on the social aspect, see also the Commission’s Communication to the European Parliament and the Council: [Strengthening the Social Dimension of the Economic and Monetary Union](#)).
- The Euro has been described as an “orphan currency” – a transnational currency without transnational democracy. Many commentators hope that the Report will

address the democratic deficit at EU-level and its implications for a functioning EMU.

- The establishment of a fully-functional **Capital Markets Union** by 2019 is also a priority to bolster investment and is aimed at supplementing the Banking Union. This will be done by: improving access to financing for businesses and investment projects across Europe, in particular start-ups, SMEs and long-term projects; increasing and diversifying the sources of funding from investors in the EU and all over the world; and making the markets work more effectively so that the connections between investors and those who need funding are more efficient and effective.

Leaked reports suggest that the Four Presidents' Report will attempt to reconcile those countries which believe that enough has been done to stabilise the EMU with those who wish for deeper integration by implementing a two-stage reform plan. The first stage would consist of implementing the more pressing reforms, while the second phase would focus on the longer-term, more far-reaching reforms. In addition, it has been suggested that the "contractual arrangements," which discuss economic policy reforms at EU-level before final decisions are taken at the national level, may be replaced by a "more systematic involvement of national stakeholders" into the reform process, including national parliaments.

Further Reading

European Union of Federalists – Policy Brief: Strengthening and deepening the Economic and Monetary Union within the current Treaties: Possibilities and limits.

http://www.federalists.eu/fileadmin/files_uef/POLICY/Policy_Briefs/2015/Policy_Brief_Strngthening_and_deepening_the_EMU_within_the_current_Treaties_25_proposals.pdf

→ 25 proposals and their implications for the Treaties

Schneider: Growth for Europe – Is the Juncker Plan the answer? EPC Discussion Paper, March 2015. http://www.epc.eu/documents/uploads/pub_5420_growth_for_europe_-_is_the_juncker_plan_the_answer.pdf

→ Focus on investment

Springford and Odendahl: How to Pull the Eurozone out of the Mire, Centre for European Reform, November 2014.

http://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2014/bulletin_98_article2-9736.pdf

- 5-pronged strategy for Eurozone recovery

European Parliament: Enhancing the Legitimacy of EMU Governance, December 2014.

http://www.europarl.europa.eu/RegData/etudes/STUD/2014/536312/IPOL_STU%282014%29536312_EN.pdf

- Focus on strengthening the legitimacy and increasing parliamentary oversight of EMU without Treaty changes

Bruegel: The long road towards the European single market, March 2015.

<http://www.bruegel.org/publications/publication-detail/publication/873-the-long-road-towards-the-european-single-market/>

- Looks at completion of the Single Market as a way of boosting welfare, stimulating growth and increasing European competitiveness

CIDOB Publication: Redesigning European Monetary Union governance in light of the Eurozone crisis, May 2015.

http://www.cidob.org/noustack_en/publications/publication_series/monographs/monographs/redesigning_european_monetary_union_governance_in_light_of_the_eurozone_crisis

- A collection of essays by various scholars and experts on topics related to EMU governance and reform