31 July 2017

CEEP OPINION ON THE REFLECTION PAPER ON DEEPENING THE EMU

Executive summary

- For CEEP the reflection paper on the future of the EMU should help start considering the **Euro zone as a whole and not just as the sum of its individual components.** CEEP always considered public investment in key physical and social infrastructures as the main lever to foster growth for the benefit of citizens and enterprises in Europe.

- **CEEP calls for greater involvement of social partners in the design and monitoring of reforms,** whilst ensuring that sufficient support is provided for capacity-building activities for social partners engaged in reform programmes.

- **The preparation of the new EU multiannual financial framework, stronger support to reforms and greater links to euro area** are clearly identified by CEEP as the main priorities. We advocate the establishment of a self-supporting structural reform support programme under the future Multiannual Financial Framework (MFF).

- **CEEP believes that a macroeconomic stabilisation function at euro area level could potentially complement automatic stabilisers at national level under certain conditions**. It should take the form of automatic stabilisation and not aim at fiscal fine-tuning of the economic cycle. The stabilisation function would therefore not be a tool to actively steer the euro area fiscal stance, but rather reduce the need for euro area countries to address large country-specific shocks by using discretionary policies.

- CEEP members could see added value in **further elaborating a European treasury**, particularly to ensure minimum levels of public investments across Europe. However, CEEP expresses strong doubts on whether the EU would be politically ready to move so strongly toward federalization by 2025. This roadmap seems unrealistic in the present state of the Union.

- **CEEP would be in favour of nominating a special Commissioner for EMU governance or a European finance Minister** which would be entrusted with drawing up the macroeconomic policy of the EU while mediating with the EU institutions.

General remarks

Since 2008 socio-economic convergence has come to a halt. The crisis – and its management – has caused an alarming divergence among Member States. These divergences put at risk the economic, financial as well as political stability of the entire Union. Disparities between Member States are impressive and require a specific EU commitment for upward convergence. Structural imbalances in competitiveness are particularly worrisome as they constitute the basis for further worsening of the gap between Member States, in terms of growth, employment and prosperity.

Sustainable growth, balanced budgets and social cohesion can only be achieved if more efforts are made to create new sustainable jobs. This must be reflected by ensuring a balance between financial and economic objectives and social and employment objectives, in the structure of the European Semester and in the future EMU.

For CEEP the reflection paper on the future of the EMU should help start considering the Euro zone **as a whole and not just as the sum of its individual components.** CEEP always considered public investment in key physical and social infrastructures as the main lever to foster growth for the benefit of citizens and enterprises in Europe. A Vicious cycle is at play today: **a lack of quality infrastructures reduces regions' attractiveness to private investors**, and therefore harms their capacity to collect tax revenues. This impacts their ability to invest in quality public services such as health, security, education and innovation.

In this context, it is critical to assess how far our European economy is from its potential. Certain evaluations by the ECB of the output gap (the gap between the level of economic activity and its potential) in the crisis is large and over the 2014- 2015 period it reaches -6% of euro area GDP, a value twice as negative as the publicly available estimates of international institutions. Such a negative output gap calls for a strong demand stimulus and a more appropriate policy-mix.

Pressure on public investment means underinvestment in the long run, which can have a devastating impact on the sustainable development of public infrastructures. Capital expenditures in infrastructure and services (energy, climate change adaptation, social and health care, housing, waste management, etc.) have a positive impact on economic growth and social cohesion.

We have considered for instance that the **Member States should use to its full extent the existing flexibility built within the SGP.** Beyond that we also assessed that **some expenses more favourable to long-term growth should remain separate from current expenditure**. We believe that investment with positive effects on future generations, such as education and healthcare, could be financed with debt and deficits, unlike consumption expenditures. We see this as a sustainable investment into the future, supporting intergenerational fairness and solidarity.

The **code of conduct on the implementation of the SGP** already includes a codified version of the "Commonly agreed position on Flexibility within the SGP", which the ECOFIN Council formally endorsed on 12 February 2016. However, we believe that this position **should become more enforceable and be an integral part of the SGP's legal basis**.

While progress on developing a banking union and a capital market union seem to go in the right direction with a clear and precise roadmap up to 2025, CEEP members are far more sceptical about the Commission's ambition to hasten the move toward more political integration around the economic and monetary union (EMU).

In the different set of initiatives laid out by the European Commission's reflection paper, some could clearly be achievable by 2025 and could bring additional efficiency and relevance to the EMU whilst some of the other proposals would need a longer-term perspective.

Financial Union

- For the moment, the discrepancy seems obvious between the detailed roadmap for the Financial-Union and the lack of precision around the measures outlining future prospects for an economic and fiscal union.

- A key new initiative of the EC lies in the development of so-called sovereign bond-backed securities (SBBS). CEEP would be in favour of the development of such an instrument focused on increasing the diversification of banks' balance sheets and by fostering risk sharing.

- Before addressing the need for additional budget for the European Union, there are wide margins for reinforcing the efficiency of present European spending. Particularly towards growth enhancing and productivity related investments.

- The economic value of social investment has received a new attention. It is more and more acknowledged that they bring benefits that are essential for economic performance and human development, such as improving social and human capital. This being said, the Social Investment Package published in 2013 has been disappointing. It was an important first step but did not sufficiently stress the productivity-enhancing aspects of investing in social infrastructures. CEEP believes that the economic added value can be better assessed and promoted by political institutions and notably the European Commission. That is why CEEP is one of the founder and active members of the High-Level Task Force on Social Infrastructures aiming at promoting the financing of social infrastructures.

- There needs to be a strengthened focus on funding for regions, which may entail an empowering of the EU structural funds.

Economic and fiscal Union

- **CEEP members are in principle in favour of a strengthening of the European Semester**. The EU has since long developed its monetary union and have in its wake developed the open method of coordination to ensure that Member States' budgetary policies follow a similar direction. The crisis provided more opportunities for soft coordination between the Member States' reforms and through the European Semester. The Member States also developed peer learning activities whilst identifying common challenges. Member States need to remain conscious of how their policies may affect one another in an integrated EU.

- **CEEP is in favour of greater technical assistance with certain conditions:** In November 2015, the European Commission proposed to establish the Structural Reform Support Programme 2017- 2020, to provide Member States with technical assistance in designing and implementing structural reforms. The objective of the Structural Reform Support Programme is to offer technical assistance to all Member States, aimed at improving their institutional and administrative capacities for implementing structural reforms with a view to building strong economic foundations. CEEP advocates for strengthening the position of Member States in requesting, implementing and monitoring this kind of support. CEEP welcomes to this effect the recent development of national productivity boards which allow Member States to design their own national boards either by setting up new institutions or adapting the mandate of existing bodies, provided they are independent.

- **CEEP calls for greater involvement of social partners in the design and monitoring of reforms** while ensuring that eligible actions included capacity-building for social partners engaged in reform programmes.

- **Work on convergence standards**: CEEP would be in favour of the definition of standards and benchmarks on common objectives that EU Member States would aim for. However, CEEP is not in favour of convergence of policies which would tend to indicate that there are one size fits all measures that would suit each Member State.

- **Preparation of the new EU multiannual financial framework, stronger support to reforms and greater links to euro area priorities**: As stated above CEEP advocates the establishment of a self-standing structural reform support programme under the future Multiannual Financial Framework (MFF). Furthermore, CEEP welcomes the clear establishment in recent years of a precise set of Euro area specific recommendations aligned with the publication of the Annual Growth Survey. The EU should increasingly be empowered to be able to play a real counter cyclical role.

- **The EC proposes the creation of a central macroeconomic stabilisation function** to complement automatic stabilisers at national level if national budgets become overwhelmed by very large macroeconomic shocks. Discretionary fiscal policies are generally considered as a weak macroeconomic stabilisation tool during normal economic cycles. There is therefore broad consensus that automatic fiscal stabilisers represent “the first line of defence” by being a predictable and systematic response to normal asymmetric shocks.

- **CEEP believes that a macroeconomic stabilisation function at euro area level could potentially complement automatic stabilisers at national level under certain conditions**. As emphasised in the Five Presidents’ Report, a euro area macroeconomic stabilisation function should neither be aimed at income equalisation nor lead to permanent transfers between Member States. It should take the form of automatic stabilisation and not aim at fiscal fine-tuning of the economic cycle. The stabilisation function would therefore not be a tool to actively steer the euro area fiscal stance, but rather to reduce the need for euro area countries to address large country-specific shocks by using discretionary policies.

- **However, this seem very hard to achieve politically** with the present state of the European Union. This would necessitate a pooling of fiscal resources which, whatever their nature and size might be, only works if solidarity goes hand in hand with shared responsibility. The move towards a fiscal capacity can therefore only take the form of a *gradual* and *conditional* process aiming at reaching our macroeconomic objectives:
  - Restoring fiscal buffers at national level,
  - Convergence in the capacity to absorb shocks at national level
  - A progressive strengthening of institutions at euro area level

- **Perspective for an EU treasury**: the EC assesses that the eurozone "will need to shift from a system of rules and guidelines for national economic policy-making to a system of further sovereignty sharing within common institutions." In practice, this would require that Member States accept more joint decision-making on elements of their respective national budgets and economic policies. CEEP members could see added value in further elaborating such a treasury, particularly to ensure minimum levels of public investments across Europe. However, CEEP expresses strong doubts on whether the EU would be politically ready to move so strongly toward federalization by 2025. This roadmap seems unrealistic in the present state of the union.

Democratic accountability and effective governance

- **CEEP welcomes the intention of the European Commission to further improve the democratic aspects of the EU Fiscal and Budgetary policy.**

- For the moment, **the approach toward the EMU reform seems top-down**, which may be justified in the "exceptional times" we are going through, when fiscal spillovers are high and the Euro area is at risk. However, the democratic legitimacy of the whole process is critical in order to be understood and followed.

- **There is great potential in better involving national Parliaments in EMU policy making** as setting budgets is a core responsibility of sovereign parliaments. Subsidiarity should remain a guiding principle when it comes to the democratic accountability of the EMU structures.

- **CEEP would be in favour of nominating a special Commissioner for EMU governance or a European finance Minister** which would be entrusted with drawing up the macroeconomic policy of the EU whilst mediating with the EU institutions. That office should also be the representative of the EMU at international settings such as the IMF and would also offer a unique opportunity to repurpose the Eurogroup, by turning it into a formal Council formation.