



**European
Movement
International**

Brussels, 12 November 2015

What kind of
Monetary Union
does Europe need?

EVENT REPORT

On 12 November 2015 the European Movement International held a stakeholders' debate to discuss "What kind of Monetary Union does Europe need?", following the inter-parliamentary Conference on Stability, Economic Coordination and Governance in the European Union and the most recent developments in the field.

The event brought together the European Parliament, the Commission, the Council, which discussed the Political, Economic & Social Dimension of the EMU and three think-tanks that explored possible scenarios, beyond politics and institutional agenda-setting, on how the EMU should work going forward.

Ms Pervenche Berès MEP and EP Rapporteur on EMU economic governance opened the discussion by stating that as the process of implementing the Five Presidents' Report is concerned, the devil is in the detail. She argued that the crucial differences between the EP report she acted as a Rapporteur for and suggestions put forward by the five Presidents lie in the level of investment, nature of structural reform pursued, as well as on the debt issue, something which is omitted by the Five Presidents' report.

Ms Berès argued that there is a big divide between Brussels and the Member States. This factor proves to be most visible in the Brexit debate, but also reflected in developments in Syria, where they EU barely has any say. There are similarities between the debate on EMU and Schengen, not least because both of them are incomplete. She also stated that the role of national parliaments should be emphasised and, at the same time, a real economic debate with all relevant stakeholders initiated.

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.@pervencheberes on the divorce between #Brussels and #EU #MemberStates #EurMove #EMU



José Leandro, Director for Policy, Strategy and Co-ordination at the European Commission's DG ECFIN argued that despite of all the reforms, which have taken place for the last couple of years, EMU remains incomplete. This has two major implications: 1) it raises doubts about the viability of EMU in the long run and 2) makes it more difficult to achieve a rapid, even and sustainable recovery in the short run. He put forward the main economic rationale behind the proposals in the Five Presidents' Report on Completing Europe's EMU: in a monetary union where large scale fiscal transfers are absent

and labour mobility is relatively low, Member States need to put in place policies that ensure fiscal stability, prevent the emergence of large macroeconomic imbalances and facilitate adjustment in case of idiosyncratic shocks. However, not all shocks can be absorbed internally only. Some large shocks need to be shared within the EMU. Hence the need for risk sharing mechanisms. But risk sharing needs to go hand in hand with concrete steps to reduce risks. As proposed in the Five Presidents' Report, this requires concrete steps to enhance convergence of economic structures, the completion of the banking union, notably through the setting up of a common deposit insurance scheme, steps towards fiscal union, notably through a fiscal stabilisation function for the EMU and steps for enhanced political legitimacy and accountability.

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Countries need to put in place policies to prevent #crisis / not the case before #2010 @EUJoseleandro @ecfin

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Heated #EMU debate welcomed by the @EU_Commission @ecfin @EUJoseleandro #EurMove

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Call for @Europarl_EU and national parliaments' in reforms process by the @EU_Commission @pervencheberes #EMU #EurMove

João Nogueira Martins, Economic Advisor at the Cabinet of Donald Tusk, President of the European Council, started by stating that we cannot expect quick fixes from the December European Council, but rather a steady – yet slow – movement.

He continued on a personal capacity, seeking to answer two headline issues, that is, what to do to avoid existential financial instability on one hand and on the other, ensure economic prosperity. On the former, he argued that the EMU is not ready for the next crisis – because there is always a next crisis – but what has already been achieved (and what is still in the pipeline) in the banking union will help overcoming fiscal turbulences. The next step to complete the banking union is the European deposit insurance scheme.

There is evidence of a very deep scar that the last crisis has left, namely the lack of trust between political actors, but also lack of trust from the public.

Mr Nogueira Martins stated that political stability, which depends on social and economic prosperity, is directly linked to the economic and social policies of the Member States. We can therefore draw a conclusion that political stability and prosperity of the Eurozone depend on individual member states' policies to a large extent.

Costas Mavrides, MEP (S&D), focused on the case of Cyprus as a guinea pig of the EMU experiment, emphasising that before the crisis Cyprus was one of the most ardent supporters of the Eurozone. When the bail-in stroke in March 2013, it was the first time when the shareholders as well as depositors lost their money. This had a devastating social impact as people had to face poverty from one day to the other. For the second largest bank on the island, all 100% of deposits over the €100,000 were bailed in and for the largest bank around 50%. That gives a proportion of the economic loss in an economy with no confidence in its banking system. Consequently, if participation in the EMU is to be safeguarded, we need to ensure that deposits are safe. Also policy makers need to bear in mind that in economics social aspects are unavoidable part of the entire discussion, thus the social dimension of EMU should be perceived as a priority for the current Commission and Team Juncker.

On the most important element of the EMU reform Mr Mavrides argued that we do not want to see past mistakes repeated, learning specific lessons especially when we look at the Cyprus case. Some member states like Cyprus, are small enough to be punished, while other member states are too big to be punished. We've seen discriminatory policies. We have common rules, but common rules are not necessarily impartial rules. What we need is an impartial way – not just common rules – an impartial way of applying the rules, in a way

that would allow for the different size, nature and comparative advantage of member states. And finally, from the technical point of view, the European deposit or guarantee scheme should have been in place long time ago. If that were the case, some of the problems we have today could be very limited.

Mr Mavrides also stated that we need democratic legitimisation and we all know, that the European Parliament is the only institution that can offer the European Union democratic legitimacy. We are the only EU representatives elected by the people. But we have less power when compared to the Council and the Commission. It is about time to go from status to practice; I think that more power – meaning more democratic legitimisation – should be shifted from other powerful institutions towards the European Parliament, he added.

Mr Mavrides also commented on the fact that we need a social convergence to get closer to citizens, a proposal put forward in the EMI Position. He argued that Social union without economic convergence is a Union only in paper. Looking back to EMU criteria, they are always quantitative when it comes to

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Monetary union is about money and money is about deposits #EMU #EurMove @JoaoNM1967 @EUCouncil

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#EU is not ready for the next #crisis but we are doing a great progress @JoaoNM1967 @EUCouncil #EurMove #EMU

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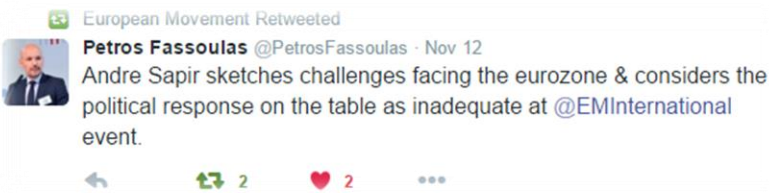
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economics, but never when it comes to social issues, he argued. Nobody would ever connect the economic support for the Member States with their level of labour force or unemployment. There are ways to connect social and economic issues if there is political will. Again, I think that giving more power to the European Parliament, would be as giving more power to the European citizens, ending up in more convergent policies, and more convergence in social and economic issues. Taking it a step further, without democratic legitimisation, the European Union will not fulfil its main reason for existence, Mr Mavrides argued.



André Sapir, Senior Fellow at Bruegel drew a pretty pessimistic economic picture, suggesting that problems with inflation well below target will continue next year. He argued that Europe has a debt overhang problem with the need to reduce public and private debt. There is also yet another worrying political element in crisis handling –populist discourse. Is there enough political momentum to address these, Mr Sapir asked? The Five Presidents’ report is indeed a good framework to start from, but it needs momentum and political consensus. We must not forget that all these efforts are aimed at putting in place a framework which should have been there already for years, he concluded.



On EMU reform Mr Sapir argued that it is going to take time. The most important thing is the commitment to reform; not how long it takes. Many believe the current system of governance is not sustainable; but the real challenge, Mr Sapir stated, is the narrative, how to sell to the citizens (and politicians) the every important changes that need to be made, some requiring transfer of sovereignty to the European level. He cautioned against complacency. The economic situation has improved but the system needs to be improved to resist the next shock.

On the Five Presidents' report, he argued that it constitutes a good framework. It contains all the necessary chapters but some important chapters contain a lot of blank pages. There needs to be both technical and political hard work to fill up these pages and reach an agreement.

With regards to the EMI Policy Position on EMU and our proposal on the appointment of a High Representative of the Eurozone, Mr Sapir stated that he is in full agreement, since this is something he himself suggested already 7 years ago. But the question which is most important is, "[High Representative] to do what"? This is also a notion linked to the fiscal union on the European level. Reform of the treaty is needed for that role to have substance. What I have in mind for the High Representative, he argued, is a role akin to that of the president of the ECB in the field of monetary policy. The Eurogroup should be replaced by a European Fiscal Council comprising of not only the Eurozone Finance Ministers but also six Executive Board members appointed by the EU institutions to represent the EU interest. The president of both this Council and Executive Board should be the EU Commissioner for Economic Affairs who would also act as High Representative of the Eurozone in international fora.

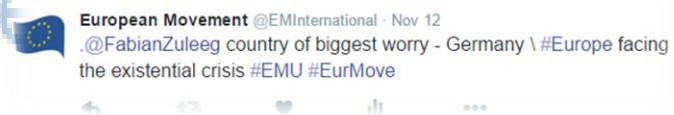
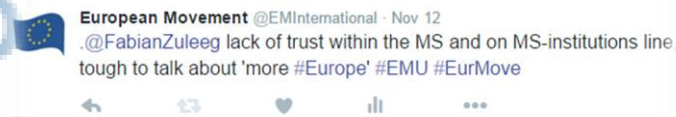
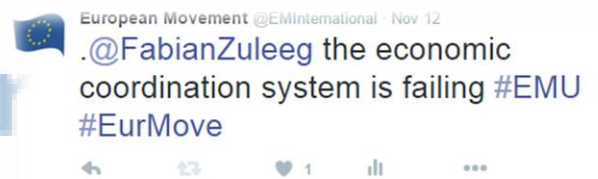
Fabian Zuleeg, Chief Executive & Chief Economist, European Policy Centre

started by stating his vision would be even more pessimistic than the landscape described by Mr Sapir. The EPC Director pointed out that the European Union is facing an existential crisis these days.

He stated that it is difficult to outline one particular reform urgently needed as there are many levels at which EMU is lacking, but the crucial thing missing is trust between the Member States. Thus, a way needs to be found to re-establish trust. Small steps to rebuild trust – trust is the fundamental issue in the EMU and its lack can become a serious existential threat.

Mr Zuleeg continued by stating that the Five Presidents Report is a starting point, there are some particular issues which could have been addressed differently. One of the key problems is that the reaction from the Member States are less than enthusiastic. We can have a discussion about a grandeur architecture of the EMU, but the most important thing is to make some practical steps now, not beyond 2017.

As for increasing the role of the Parliament, a proposal made in the EMI's Policy Position on EMU, he argued that we need to think very carefully, if we are moving forward with integration in the eurozone, how we can create legitimacy to underpin the EP's role. If we move towards more centralised fiscal powers, is the European Parliament the right instrument to legitimatise it and democratically underpin it, he asked. This is still subject for discussion, as we still have more general issues with regards to the European Parliament to be addressed, for example the low participation rates in the European elections and public perception on whether the EP has legitimacy to decide on the economic governance. It is thus a complex discussion we need to have.



Christian Odendahl, Chief Economist, Centre for European Reform argued that the Eurozone constitutes a threat to the European project at the moment. Economic policy at the European level need integration and national discipline, while people understand policy-making via the national democratic process. This contradiction can be overcome by focusing on the areas that absolutely need integration. A well- functioning democracy is the best way for further structural reforms.

Mr Odendahl stated that one of the strongest lessons learnt from the financial crisis is that the financial system in particular needs to be truly and fully European. This is one of the most important reform steps and we have stopped somewhere half-way, we need to complete that, Mr Odendahl argued. The second part of financial markets is of course the integration of capital markets, especially the type of private risk sharing that capital markets, in particular equity markets, can provide. Private risk sharing [...] is one of the most important stabilisers. So I think if we manage to complete those two entirely, we would have made a big step, he concluded.

Regarding the EMI Policy Position on Eurobonds and a common unemployment scheme Mr Odendahl claimed that Eurobonds had been disused before the ECB turned itself into a lender of last resort; now, that the ECB has assumed that role and which seems to be working well, I would not spend political capital needed to reform the EMU on Eurobonds, he stated. The resistance would be fierce, and the benefits – taking into consideration the current circumstances – would not be that large.

As for the common unemployment insurance – there are two things we want to achieve by that. The first is countercyclical policies at the national level and we want some kind of risk sharing. I am fully in favour of countercyclical policies. This is probably the second strongest lesson from the current crisis, so we do need very strong countercyclical policies on the national level. But national governments can do that already, so it is not necessary that we need a European intervention to force the governments to do that. And when it comes to risk sharing, again, the ECB OMT and QE programmes have reduced the risks quite considerably already for governments. If high debt levels prevent governments from doing that, it is no longer risk sharing, but a bit of a transfer element, and that would make it extremely difficult politically. So that is why I am personally not in favour of the common unemployment insurance, but I see the point why people propose it [...].

Mr Odendahl concluded by saying that he is unsure whether we see fundamental changes over the next year, as we still do not have enough intellectual convergence on what is needed. The Five Presidents Report in a way tries to do that, but it also aims for balance, which is not the same thing. And part of the reason why we have trouble reforming EMU is because the current set up was forged in crisis, so we are a bit stuck in a bad equilibrium where we cannot really move. Whichever direction we are trying to move to, we will face a fierce resistance from some parts of the Eurozone.



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To read the full European Movement International Policy Position on the EMU, click [here](#).

[European Movement Background Briefing on the EMU](#)

[The Five Presidents Report](#)

[European Parliament Report](#) on "the review of the economic governance framework: stocktaking and challenges", Rapporteur: Pervenche Berès MEP

[Bruegel Policy Brief](#) – "Euro-area governance: what to reform and how to do it" by André Sapir and Guntram B. Wolff

[EPC Publication](#) – "Can the eurozone's economic governance combine political accountability, legitimacy and effectiveness?" by Fabian Zuleeg

[Centre for European Reform's](#) Assessment of "The eurozone's 'five presidents' report" by Christian Odendahl

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The European Movement is an international organisation open to all political, economic, social and cultural trends in civil society. Its objective is to contribute to the establishment of a united, federal Europe founded on the principles of peace, democracy, liberty, solidarity, and respect for basic human rights.

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