



A sustainable Economic and Monetary Union Summary of the Greens/EFA policy paper

Why the Eurozone needs fundamental reform

If we Europeans, who represent 7% of the global population, want to regain democratic power for our democracies, which is the ability to shape our own future and to meet the challenges of this century, and enhance our living standards we need to act together. In that perspective, we refuse to stand idle in front of the foreseeable break-up of the Eurozone which would occur if the fundamental issues affecting it would be left unaddressed. And such a break-up would, in our view, be the first step of the political disintegration of the European Union. Conversely though, any enhanced political integration of the Eurozone should not lead to the crystallization of a two-speed Europe; it is necessary to democratise and reform the common economic governance system in the Eurozone, but this should not lead to an exclusion of any other EU Member State. Likewise, non-eurozone Members should not hold a final veto over urgently needed reforms of the Eurozone. However further European integration can only arise from a common project for the future of Europe based on a reinforced community method putting an end at the intergovernmental approach and at ambiguous shortcuts based on the establishment of new technical bodies.

In short, the severe shortcomings which have reinforced each other and exacerbated the overall fragility of the Eurozone and which need to be tackled are the following:

- **A severe debt overhang** The EMU needs to address a severe debt overhang which is the result of a quarter-century of debt/credit-driven growth which has mainly fuelled short-term consumption, excessive speculation and unproductive investments which led to the accumulation of large systemic risks.
- **A lack of proper private and public mutualisation mechanisms** for addressing economic shocks. In the absence of conventional means for addressing economic crises, such as currency devaluation, other adjustment mechanisms are needed. Innovative risk sharing mechanisms (both public and private) should be created to facilitate a recovery and to avoid unnecessary costs for the society as a whole and for the most vulnerable when confronted with a crisis.
- **Unsustainable internal and external economic imbalances.** The EMU is trapped with unsustainable macroeconomic imbalances as the burden of the adjustment is largely placed in periphery Member States which are required to implement austerity measures (on budgets and wages) which harden overall debt reduction efforts. Such self-defeating policies aggravate social hardship, poverty and exclusion.
- **A unsustainable economic model.** The European economy and that of the member states is based on a non-resilient and unsustainable economic model that will make it unable to cope economically with the climate crisis. There is a need to shift to a more resource smart production and consumption economy that focuses on clean and renewable energy sources.
- **A democratic deficit.** The system of governance in the Eurozone suffers from a **democratic deficit**, which undermines its legitimacy and threatens its existence. This must be urgently tackled by providing for greater democratic accountability and control.

Therefore, EMU needs to be deeply transformed so as to make it both resilient and fit for purpose. There can be no monetary union without strong financial solidarity but there will also be no lasting solidarity without a renewed commitment to commonly adopted rules (notably budgetary discipline), which effectively addresses moral hazard risks, among its members.

What reforms are needed to make the Eurozone sustainable

There is a need for a comprehensive set of reforms to address these various challenges. The roadmap for the implementation of these reforms are not limited to the sole Eurozone countries; any Member States is welcomed to join so that not only the Eurozone but the whole European Union would be strengthened.

Some of these reforms must form part of an immediate response but there are also reforms whose magnitude is such that they will require more time, especially those that will necessitate a change in the EU treaties.

Debt sustainability and a credible economic and fiscal union

There are some immediate steps that need to be taken to tackle the unsustainable debt situation; notably, **convening an EU-wide conference on debt** and **urgently restructuring Greek debt**.

The fiscal rules and procedures adopted with the “Six Pack” include procyclical rules on debt and deficit, which can be hardly achieved without aggravating an economic and social recovery.

These inflexible rules need to be simplified and replaced by more appropriate targets, which give room for manoeuvre to governments to proceed with sustainable investments. These investments will be subject to a prior political agreement in order to avoid Member States to abuse the softening of the rules..

An internal market and economic and monetary union implies an **enhanced common approach to corporate taxation**. Moves to this end need to be stepped up with a view to realising a common consolidated corporate tax base and a minimum rate, as well as common rules governing all aspects of corporate taxation, notably transparency. A Financial Transaction Tax (FTT) must also finally be created.

Ultimately, a credible Eurozone requires the establishment of a genuine Economic and Fiscal Union. With that purpose, immediate work needs to begin on a roadmap for the gradual mutualisation of public debt between the Eurozone countries beginning with a mechanism of interest rates mutualisation (according to which the benefit of the Member States enjoying a low interest rate on their public debt would be shared by the others who, otherwise, face higher rates that increase even more the debt burden), as well as the definition of a roadmap towards the establishment of so-called **automatic stabilisers** to cushion any shock that would undermine the pursuit of sustainability.

Accompanying measures will consist of making **the European Central Bank a lender of last resort** for the Member States and of transforming the European Stability Mechanism into a **European Monetary Fund**. These long-term goals will require treaty change but work in this direction must begin now.

Eurozone governance and a functioning economic and monetary union

The Eurozone governance system should assess the fiscal and structural outlook for the EMU as a whole rather than only on an individual member state basis. This would stress the need for a cooperative approach where countries with lower deficit, low sustainability risks and current account surpluses should increase their internal demand to contribute to the overall stance in the EMU.

At the same time, it should be **revised to shift from the current focus on external competitiveness and budgetary discipline towards a broader and more balanced, counter-cyclical scope**. The Commission should include a broader set of indicators in the macro-economic imbalances procedure scoreboard. It should take into account social justice and environmental sustainability (such as households' disposable income, poverty, youth unemployment, capital unit costs, as well as resource efficiency and innovation) to avoid that

the recommended policy mix only looks at external competitiveness through wage compression and social dumping that intensify competition between workers themselves and between workers and the unemployed.

The banking union must be completed. The banking sector in the euro area and the wider EU must be made safe and reliable and non-viable banks must be resolved without recourse to taxpayers' money and with minimal impact to the real economy. This implies establishing a **common deposit guarantee reinsurance scheme** which avoids moral hazard and implicit subsidies between different banking models for the Eurozone+. A structural reform of the EU banking sector should be implemented, meaning a full legal, organisational and operational **separation of retail banking activities** (necessary for the functioning of the real economy) from other financial and more risky activities. There is a need to **provide a last resort common fiscal backstop** for this reformed banking sector to limit the wider social, financial and economic spill-over effects of bank failures. There is also a need for a **more comprehensive supervision of the sector by means of a supervisory authority fully separated from the ECB so as to avoid conflicts of interest.** The European Systemic Risk Board should be given real powers to detect and deflate credit bubbles and more general macro-prudential risks.

Complementary, the absorption of private shocks should be improved through exploiting the potential of the **capital markets union** as an alternative source of financing that will support investment and make the financial system more stable by opening up a wider range of funding sources.

Shifting to a more resilient and sustainable economic model

There is a need to shift to a more resource smart production and consumption economy that focuses on clean and renewable energy sources, especially after the Paris Climate Agreement that calls for limiting the increase in global temperature to below 1.5 degrees. Fiscal and legislative priorities should be revised to reflect this and in particular a more ambitious green investment plan built on a scaled up European Fund for Strategic Investment and in close cooperation with the ECB.

There is a need to **optimise the use of the EU budget to promote the transition towards a more sustainable and resilient economic model.** This implies reorienting the EU budget so as to fully exploit its potential to reduce inequality and our consumption of global natural resources. Therefore we propose a genuine capacity to generate, channel and coordinate the investments required for decarbonising our economies and to gradually remove systemic risks. This also means increasing the budget and ensuring it is financed entirely through own-resources, and not subject to the ritual horse-trading between national finance ministries. **We want to establish a fund for the future within the EU budget** financed by an European tax agreement. A fixed share of additional revenue made by an European tax agreement could be paid into the EU budget by the EU member states within the framework of enhanced cooperation, and could be used in a targeted manner to promote public investments for the future beyond the existing cohesion policy. The aim of the fund for the future would be to initiate public investment in different regions of the EU and to connect the most underdeveloped regions to the EU through structural policies for support. There needs to be a much greater focus on EU measures that tackle youth unemployment. We need to create a social protection scheme to address energy poverty and food deprivation. We also need to introduce **binding EU minimal social standards.** We need **more ambitious environmental and resource efficiency targets** and need to ensure these targets are truly binding within an EMU sustainability and prosperity pact.

Putting the Eurozone on a democratic footing

The weak democratic legitimacy of the Eurozone institutions needs to be rectified without delay. There is a need to **strengthen the democratic accountability of the Eurozone by increasing the role of the European Parliament** in the EU's economic governance system. This means also increasing the use of the community method. We need to ensure national

parliaments are also more involved, which implies creating an enhanced inter-parliamentary conference. **The same is true of the European Central Bank**, which should have its status reformed and have much clearer provisions for ensuring democratic accountability. The fundamental principle of 'no taxation or provision of public subsidies without representation' should be enshrined in such mandate and therefore a permanent scrutiny mechanism will be established so as to ensure a strict separation between fiscal and monetary policy

In order to provide true democratic legitimacy, the Eurozone needs to have a clear EU legal framework. The European Parliament should be involved in the key stages of the annual economic governance system (the European Semester). The **Commission's vice-president for the Euro should also chair the Eurogroup** and have comprehensive powers over the Economic and Monetary Union. In return, the European Parliament, which would be involved in this appointment, would also have the power of dismissal. **The European Parliament should also have a special committee on Euro issues**. Achieving this will ultimately require changes to the EU treaty changes, so the way for a treaty change convention also needs to start as soon as possible.

* The full paper can be found online at: ...

The following table presents a synthesis of our proposals according to three time horizons.

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| <p>Horizon1: Measures to be taken in the next 24 months - Starting the required future oriented reforms</p> | <p>Addressing the broad socio-economic shortcomings of the EMU</p> | <p>Addressing the shortcomings regarding democratic development of the EMU</p> |
| <p>Horizon 2: Measures to be taken in the medium term and beyond two years - Establishing the necessary conditions for a sustainable EMU</p> | <p>Addressing the lack of proper mutualisation mechanisms for responding to economic shocks</p> <ul style="list-style-type: none"> ◦ Addressing the lack of proper mutualisation mechanisms for responding to economic shocks <ul style="list-style-type: none"> ◦ Initiate an interest-rate mutualisation system for the Eurozone ◦ Addressing the severe debt overhang & Addressing EMU's unsustainable internal and external imbalances: <ul style="list-style-type: none"> ◦ Launching a debt conference with a specific focus on Greece ◦ A quantum leap towards tax justice (FTT, CCCTB, Wealth tax) ◦ A comprehensive overhauling of the EU Semester framework: a symmetric reform of the Macroeconomic imbalance procedure and the Annual Growth Survey and an appropriate euro area fiscal stance ◦ Mobilization of EU budget ◦ Promoting voluntary labour mobility ◦ Tackling a non-resilient and non-diversified productivist model <ul style="list-style-type: none"> ◦ A future oriented Green investment plan part I ◦ Reorient the ECB quantitative easing program | <ul style="list-style-type: none"> • Addressing the lack of proper democratic accountability and ownership <ul style="list-style-type: none"> ◦ Increase the role of the European Parliament in the economic governance ◦ A double hat for the Commission's vice president for the euro as the head of the Eurogroup ◦ Increase transparency and accountability at Member State level. ◦ Increase the accountability of the European Central Bank and review its role in the troika ◦ Increase the involvement of social partners. ◦ Improve the institutional strengthening by making use of the flexibilities of the Treaty. ◦ Initiate an open convention to prepare the necessary treaty changes. ◦ Increase efforts to fight corruption |
| <p>Horizon 3: Measures to be taken by 2020 - Reforming the Treaty so as to make the EMU viable and geared towards social and environmental sustainability</p> | <p>Addressing the lack of proper mutualisation mechanisms for responding to economic shocks</p> <ul style="list-style-type: none"> ◦ Addressing the lack of proper mutualisation mechanisms for responding to economic shocks <ul style="list-style-type: none"> ◦ Devise a roadmap for partial and gradual mutualisation of public debt ◦ Devise a roadmap towards the establishment Eurozone+ automatic stabilizers ◦ Complete the banking union I: Establish a common deposit guarantee reinsurance scheme ◦ Devise a roadmap for a Capital Market Union to promote proportionality and avoid deregulation ◦ Addressing the severe debt overhang & the EMU's unsustainable internal and external imbalances <ul style="list-style-type: none"> ◦ A comprehensive review of the economic governance framework: making social and environmental targets more binding and provide a qualified treatment for investments ◦ Tackling a non-resilient and non-diversified productivist model <ul style="list-style-type: none"> ◦ A future oriented Green investment plan part II ◦ Increase and reorient the EU budget | <ul style="list-style-type: none"> • Addressing the lack of proper democratic accountability and ownership <ul style="list-style-type: none"> ◦ Conclude the open convention ◦ Establishing specific accountability mechanisms for Eurozone+ budgetary capacity and automatic stabilizers |
| <p>Horizon 3: Measures to be taken by 2020 - Reforming the Treaty so as to make the EMU viable and geared towards social and environmental sustainability</p> | <p>Addressing the lack of proper mutualisation mechanisms for responding to economic shocks</p> <ul style="list-style-type: none"> ◦ Addressing the lack of proper mutualisation mechanisms for responding to economic shocks <ul style="list-style-type: none"> ◦ Establish an EMU-wide budgetary capacity ◦ Establish a lender of last resort for Member States ◦ Establish Eurozone+ automatic stabilizers ◦ Turn the ESM into an European Monetary Fund. ◦ Complete the Banking Union II: establish an appropriate Common fiscal backstop ◦ Addressing the severe debt overhang, the EMU's unsustainable internal and external imbalances & tackling a non-resilient and non-diversified productivist model <ul style="list-style-type: none"> ◦ Establishing an EMU sustainability and prosperity pact | <ul style="list-style-type: none"> • Addressing the lack of proper democratic accountability and ownership <ul style="list-style-type: none"> ◦ Enhance the parliamentary powers and the community method. ◦ Overhaul the Eurogroup, the Commission and the ECB ◦ Increase the parliamentary powers and the community method. |