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EMU: BOTH REINFORCED AND DISPLAYING SOLIDARITY

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António Vitorino takes a stand on the issues on the European Council agenda for 13-14 December 2012, addressing in particular the Final Report on EMU and the content of the projects for a banking union, an economic and budget union and a political union. He also refers to the debate on European solidarity, on the implementation of the growth pact and on the strengthening of the CSDP.

1. The European Council is going to examine the Final Report on the EMU submitted by Herman Van Rompuy and the other three presidents. What is your opinion on this report?

This Final Report is based on extremely substantiated analyses of the challenges to be met in order to achieve an "authentic economic and monetary union", underscoring the complementary nature and the interdependence of its four unions – the budgetary, economic, banking, and political pillars. It delineates a precise road map and proposes three stages to achieve a stronger and prosperous EMU in the space of a few semesters. In view of both these aspects, I find the report very constructive and I hope that the European Council will endorse it in its entirety.

A great deal has already been done to address the urgent aspects of the sovereign debt crisis, with unconventional actions on the ECB's part, with the establishment of the European Stability Mechanism (ESM) and with the adoption of the Treaty on Stability, Coordination and Governance (TSCG). So the other remaining short-term aspect that now requires urgent attention is the need to break the vicious circle between the sovereign debt crisis and the banking crisis, which is why the heads of state and government leaders agreed to the establishment of a "banking union" in June of this year.

In October the euro zone's finance ministers specified that the legal framework for this banking union would be in place before the end of 2012 so that it can become operational next year. If that timetable is to be met, then it is necessary to come up with a political agreement at this upcoming European Council meeting at the very latest, even if the banking union's actual mechanisms are only gradually implemented beginning in the first semester of 2013. The important thing is for the ESM to be able to recapitalise banks in accordance with that time frame, in return for the establishment of a Single Supervisory Mechanism (SSM) for those banks. That way, we will have a new and beneficial example of the dialectic between solidarity and control which has already fruitfully been applied to the sovereign debt crisis.

The option of an ECB supervision over all 6,000 banks in the euro zone, in close coordination with the various national supervision bodies, seems unlikely to be negotiated in my view. Apart from that, there are at least two hurdles which still need to be negotiated, namely the way this supervision dovetails with the supervision of other banks operating on the single market, and a clear separation between the ECB's monetary and prudential functions. As the Final Report stresses, the establishment of a banking union is also going to rest on the creation of a single resolution mechanism for banks in deep water, together with a European resolution fund. But these hurdles and other stages do not seem, in my mind, to be of a nature to prevent our meeting the deadlines set for the establishment of the "SSM", which will be as a milestone for credibility in the face of still highly volatile markets, and also a milestone on the road to genuine banking, budgetary, economic and political union.

2. In view of the stakes that it involves in terms of sovereignty, what are the moves through which "economic and budgetary union" can really be deepened?

This economic and budgetary union was countenanced as long ago as at the preparatory sessions leading up to the launch of the single currency, but its implementation has always come up against reticence on the member states' part because they wish, quite legitimately, to safeguard their margins for manoeuvre in shaping and conducting their economic and social policies, under the direct supervision of their citizens. However, in highlighting the enormous economic, social and even political interdependence which exists among those member states, the euro crisis has helped to change the situation by allowing us to move towards the improved supervision and coordination of those policies. The adoption of the "two-pack" and the implementation of Article 11 in the "TSCG", which provides for improved a priori coordination of economic policies, will be imparting a fresh and positive boost in this field. Thus, bearing in mind the politically and democratically sensitive nature of these issues, it seems to me that peer pressure and the prospect of potential sanctions will not necessarily suffice to trigger any real progress – unless at least three other complementary pathways are pursued.

In the short term, the first pathway to pursue is cooperation, which, as Jacques Delors has stressed, is the "missing link" in the EMU. The adoption of the "contractual arrangements" mentioned in the Intermediate Report and the creation of the tool for convergence and competitiveness proposed by the Commission in its "Blueprint" would bear this out. This, because it is only by financially aiding the member states to implement the structural reforms required to counter the macroeconomic imbalances within the euro zone that we will be able to make greater progress, not by threatening those member states with "virtually automatic sanctions" or with a freeze on their structural funds.

In the medium term, the second pathway to pursue in order to complete economic and budgetary union concerns insurance. With the ESM, we now have a bail-out tool capable of addressing any serious liquidity crises that may hit the more vulnerable countries. At this juncture, what we need is a fund designed to compensate for the impact of the asymmetrical shocks to which the countries in the euro zone are subjected. All of the countries will be able to contribute to this fund because all of them are open to being impacted by negative developments in their potential growth rate or in their average unemployment rate at one time or another. I am happy to see that the Final Report embraces this idea, which was initially formulated by the Tommaso Padoa-Schioppa Group[1].

The third pathway to pursue is the path of at least partial mutualisation, which must be applied to future debts ("Eurobills" or "Eurobonds") and/or to past debts (through a "redemption fund"). It will probably be difficult to get any pledges in that sense from this European Council meeting, and it would of course be necessary to supplement it with technical measures capable of cutting the cost to which the more virtuous countries would be exposing their flank, and of preventing the risks of moral hazard. But it is very important to countenance this mutualisation in the medium term, because a political decision in that direction would have the effect of bolstering confidence in the EMU's solidity and of contributing to the financial stability of the euro zone. And of course, it goes without saying that such a step forward would also help to shift the lines between the national and European levels in connection with the exercise of economic and budgetary jurisdiction: if debts are mutualised, the way forward towards a genuine economic and budgetary union will be far clearer, on the basis of the maxim "He who pays, controls".

3. Must European political union be strengthened in the context of the euro zone, including through the establishment of a budget specifically devoted to that zone?

The euro zone has a natural calling to be the core of a political union[2], because this crisis has shown the zone's governments and its peoples that sharing a single currency entails specific rights and duties, which they probably had not clearly perceived when the euro was first launched. This crisis has prompted them to act for the preservation and strengthening of monetary union, at the cost of massive tension, but in that respect it is a kind of "validation crisis" that has evinced the will to remain united by a single currency. So all in all, it casts the euro zone in the role of the heart of increased integration, whose very nature is for it to be organised through the strengthened cooperation procedure countenanced in the treaties, so as to ensure proper dovetailing with the functioning of the broader EU.

In this context, the prospect of creating a specific budgetary tool for the euro zone is gaining ground. It is an idea that is both political and symbolic, and we must welcome it. This, because in the long term it is impossible to envisage a genuine budget union without its own budgetary instruments, in the shape of common funds or indeed of its own budget in the fullest sense. But there is still a great deal of confusion regarding the role and shape that this new "budgetary capability" for the euro zone should take, even if the Final Report sheds some very useful light on the topic.

This "euro zone budget" is generally envisaged as fulfilling three functions[3]. I have already mentioned two of them, namely to help euro zone member countries through an insurance mechanism in the event of asymmetrical shocks, and to facilitate structural reforms in those same countries. But I would add the idea of a fund designed to work as a kind of budget support mechanism (or "fiscal backstop") for the future "banking union" that is to be set up within the EMU. These three functions deserve to be set up, but they need not necessarily be performed by the same budgetary instrument.

The anti-cyclical insurance fund, for instance, is a natural candidate to be run by the intergovernmental method, whereas that is not the case for the budgetary tool designed to facilitate structural reforms in the EMU member countries, or for the fiscal backstop pegged to the banking union. These two latter functions require the existence of a single budgetary authority with the legitimacy to take difficult decisions, such as which countries and which banks deserve financial aid and which do not. The appropriate instrument for the performance of these two functions would probably be a euro zone budget with own funds and/or independent borrowing capacity, managed by the Commission, or failing that, by a specific euro zone authority that would act in close coordination with the Commission. It would naturally be crucial for the euro zone budget to be subject to in-depth democratic supervision, for instance through a "parliamentary committee for the euro zone" comprising representatives of both the European Parliament and the national parliaments.

4. After the recent budget summit, this European Council is also going to focus on solidarity among the euro zone's member countries. What is your view of the debates currently taking place?

Solidarity among member states is by no means a natural given. It has always sparked vibrant debates within the EU, and it is fairly logical that those debates should be even livelier in this time of acute crisis that we are going through. The way in which Greece's situation has been tackled – an issue that is going to be addressed again this week – has taken the debate to a white-hot level. In this context, I find three political elements particularly striking, concerning both the solidarity organised by the Community budget and the solidarity recently established within the framework of the euro zone.

First of all, there is schizophrenia. Europe's member states often evince unspoken solidarity, for instance some of them do not dare to acknowledge the fact that the EU is already a "transfer union" thanks to the Community budget. And in this recent crisis those member states have been bickering over the level of solidarity in such a lively manner that they have been prepared to accept the fact that, when all is said and done, that solidarity already exists and that it even took a symbolic step forward in the euro zone with the implementation of the ESM.

The second striking political aspect is short-sightedness. Sometimes everything occurs as though people were incapable of sufficiently perceiving that this European solidarity is "opportunistic" in that it also serves the interests of the member states that grant it, in the context of more comprehensive compromises. Jacques Delors theorised this comprehensive approach perfectly at the time when his "packages" were adopted, on the basis of his triptych "Competition, Cooperation, Solidarity". Those countries that are net contributors to the Community budget are the major winners on the European internal market; the countries that display solidarity in the context of the euro zone have contributed to the continuity of a monetary union whose dismantling would have damaged their economic and social interests. This dual, substantiated reminder is essential to explain why they have decided to show solidarity, even if they sometimes sound as they are reluctant to show any, or at least interested in showing it only on certain conditions.

The third striking political element, which is possibly the most disturbing of all, is the growing scepticism that exists over the effectiveness of this European solidarity. The bail-out plans in the euro zone have made it possible to safeguard the integrity of the monetary union, but no one can claim that, so far at least, they have produced any very visible results in terms of bringing down the debt or of fostering growth in those countries that have benefited from them. Whenever the Community budget comes up for debate, one hears increasingly stern reservations being voiced regarding the real economic impact of the "structural funds" – with an expedient use being made of the negative examples in an attempt to conceal a highly positive overall result – although of course, that does not mean that no adjustments are necessary.

So there is solidarity on the one hand, and schizophrenia, short-sightedness and scepticism on the other. I believe that, where those three issues are concerned, it is more necessary than ever before for the heads of state and government leaders, but also for all those European politicians who hold positions of responsibility, to adopt a correctly instructive approach, albeit while remedying any flaws that might be discovered here and there.

5. The "growth pact" and a fresh boost for the single market are on this European Council's agenda. What are your recommendations in that sphere?

People often point out that the "growth pact" adopted in June this year includes a financial "package" worth 120 billion euro, some 60 billion of which are earmarked to increase the EIB's lending capacity, 55 billion of which come from the redeployment of unused structural funds, and 5 billion of which come from "project bonds". This financial component is very useful, just as it would be useful for public investments made at the national level to be specifically taken into account in the context of the Stability and Growth Pact.

However, to contribute to improving the balance between stringency and growth 20 years after the boost imparted by Jacques Delors, the other major priority is the completion of the single market, which still has vast untapped potential. The Commission has adopted two "Single Market Acts" comprising a total of 24 key actions, particularly in the sphere of the digital economy, the service industry and public procurements. It is to be hoped that the European Council will show greater interest in this project because the record to date is somewhat depressing: only one of the Commission's proposals has been adopted by the Council and by the European Parliament. The thing that I find particularly striking is that the boost in 1992 was accompanied by massive political mobilisation[4] and that it was carried forward by a sense of urgency, both of which elements are missing today – possibly because the euro zone crisis is absorbing everyone's energy and because the constant drop in growth forecasts has not yet stirred the national or European decision-makers sufficiently.

The third element, which is by no means the least important of the three, is that people often forget that the "growth pact" dwells first and foremost on the need to implement sweeping structural reforms at the national level, because the potential for growth can be freed up also at that level. For instance, the member states are bound to comply with the country-specific recommendations adopted in July 2012 and to implement budgetary consolidation measures designed to foster growth. Major reforms have been set in motion over the past few years, particularly in countries benefiting from aid programmes, but those reforms have often been implemented at the pace of a forced march and they have not yet had an exactly positive impact on the growth forecasts for the countries involved. It is thus crucial from a political standpoint that the national component of the "growth pact" produce more effective results in the EU member states as a whole over the coming months.

6. An in-depth debate on defence is also due to get under way at this European Council meeting. What progress do you think is possible, or desirable, in this sphere?

The Europeans have one year, from now to the European Council meeting in December 2013, to deliver a fresh thrust to their Common Security and Defence Policy (CSDP)[5]. While the current crisis has made it impossible to devote sufficient attention to this issue since 2008, Herman Van Rompuy's initiative has now allowed us to raise the debate to an excellent level, namely the level of politics. That is crucial in order to impart a fresh boost to this debate, in which the Europeans continue to be torn in respect of what they envisage as a dilemma between watered-down national sovereignty on the one hand and Europe's weakening power on the other.

The European Council's mobilisation comes at a time when major cuts in national defence budgets prompted by the member states' budget constraints are not readily translating into an effort to pool capabilities, when in fact defence is the perfect example of a sphere in which we have to learn to spend better together.

When I was the defence minister of Portugal, the Europeans comprehensively spent two times less than the United States, yet their overall military capability at the end of the day was more than four times less... In addition to this, over the period stretching from 2006 to 2012 they have practically cut their overall spending on defence by almost one-third without any intra-European discussion or planning. The risk is that capability deficits will come into being which military procurement programmes will not be able to correct rapidly, while the world's new economic powers are increasing their defence budgets, especially China (with an increase of up to 170% between 2002 and 2011).

The priority assigned to employment and the citizens' feeling of security on European soil cannot paper over the new hotbeds of crisis which are popping up all over the world, especially in our Mediterranean neighbourhood – for example, with the risk of the Syrian crisis spreading. While the United States has reiterated its desire to see the Europeans devote greater attention to their own security in the region so that it can redeploy its military resources in Asia, this appointment in 2013 must allow us to redefine the means which the Europeans intend to adopt in order to prevent, and to respond to, the new risks of insecurity and, incidentally, also to maintain the credibility of their foreign policy.

We cannot content ourselves with simple adjustments, nor can mutualisation be restricted to international military transport or diplomatic flights, or to European air-to-air refuelling aircraft. We need an ambitious debate that addresses basic issues regarding the vulnerability to which the Europeans will be exposing their flank if they fail today to set off down the path of stronger cooperation – a path that will allow them to safeguard their children's security in the future. It is also a matter of economic competitiveness, because the defence industry accounts for thousands of jobs and its dynamism has a ripple effect on the economy as a whole. In this connection, the decisions that have just been taken by Germany, Spain and France regarding the restructuring of EADS' capital can be seen as an encouraging signal after the failure of the merger with BAE-Systems.

1. "Completing the euro - A road map towards fiscal union in Europe", Tommaso Padoa-Schioppa Group, Foreword by Jacques Delors and Helmut Schmidt, *Studies and Reports No. 92, Notre Europe – Jacques Delors Institute*, September 2012.
2. "The euro zone, core of a political union", Jacques Delors, António Vitorino and the participants to the European Steering Committee, *Tribune, Notre Europe –Jacques Delors Institut*, November 2012.
3. "Eurozone budget: 3 functions, 3 instruments", Eulalia Rubio, *Tribune, Notre Europe - Jacques Delors Institute*, November 2012.
4. "Single market: industrial and political challenges", Riccardo Perissich, *Tribune, Notre Europe – Jacque Delors Institute*, November 2012.
5. "EU defence capacities: maintaining credibility?", Elvire Fabry and Chiara Rosselli, *Synthesis, Notre Europe – Jacques Delors Institute*, December 2012.

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