Europe & Entreprises

Association for Euro entrepreneurs

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LET'S COMMIT TO ECONOMIC UNION
SAFEGUARDING MONETARY UNION

For an action plan 2011-2019

Twelve years after it was put in place, monetary union is being weakened by the effects of the 2008 financial crisis which aggravated the government debt burden, especially in certain countries.

Member States must accept some responsibility for this, insofar as they forgot the economic union which was supposed to go hand in hand with the euro. It was only belatedly, and forced by the markets, that they resolved, in order to help Greece and then Ireland, to improvise a fund which they have just decided to incorporate in the treaty.

While, aside from this addition to the treaty, it seems legitimate to avoid opening a Pandora's Box, we would be wrong to give credence to the illusion that this fund will suffice to stabilise monetary union.

For their part, Euro entrepreneurs justly continue their call for clarification of an EMU that has remained shaky and incomplete, at a time when they are:

- facing globalised competition and relocation on an increasing scale,
- disappointed at the mounting delays in economic integration,
- worried about the growing threats to monetary union,
- impatient for a European response that is up to the challenges we face.

The Barnier plan presented recently to relaunch the single market deserves support, but it cannot provide "the" answer to our expectations: without economic union, the single market will be no more than a crossroads buffeted by the winds of global competition.

Euro entrepreneurs now want to see Europe's leaders launch an action plan – without any present need for further treaty reforms - that puts the unkept promise of economic union back on the agenda.

1. A plan to relaunch economic union

From 2000 to 2010, Europe wasted ten years side-lining the original aim of an integrated economic union to accompany the 1999 monetary union and instead focusing on a Lisbon strategy which sought to beat world competition by means of an intergovernmental approach based on "open coordination".

Unlike the Community integration method which had proved its worth with the single market and then with the euro, this approach of free emulation between states proved powerless, in the absence of coordination, transparency, solidarity and controls, to meet the challenges it had set itself, and ended in failure amid widespread indifference.

The lessons of this telling failure do not seem to have been learned yet: the new Europe 2020 strategy is largely modelled on the same methods and could well meet the same fate. Is it really now the prevailing view among Europeans that one doesn't change a losing strategy?

To get back on track we need a new approach. The Greek and Irish crises arrived just in time to give us a belated but salutary wake-up call : in stormy times, both Europe and its Member States have more to lose by staying stuck in midstream - and will lose everything if they turn back - than by crossing resolutely together to the other side. And to give themselves the energy to get out of the mire once and for all, they need more than short-term first aid.

Twenty-five years ago, faced with the same need for recovery and on the initiative of Jacques Delors and other pioneers, Europe adopted a cohesive programme which delivered the single market in 1993 and monetary union in 1999. It is time to have a similar action plan, now for relaunching economic union. A legitimate goal would be to have this union in place by 2019.

By spelling out how this updated and enhanced goal of economic union would support and redress the over-narrow goal of the single market, Europe's leaders would also be better placed to meet the public's growing concerns about globalisation.

They could then count on the active involvement of the socio-economic players in the organisation and success of the action plan. Such help is vital because, even 20 years after the original 1999 objective of EMU, the plan would necessitate a difficult course that is consonant with its aims.

2. Joint financial engineering of the euro

The creation of a financial stabilisation fund – called for, then without support, by *Europe & Entreprises* a year ago in its "seven action priorities for the new decade" – came rather late but still ended up being decided in a rush. Treaty enshrinement of this assistance mechanism should be the first but by no means the only plank in the urgently needed consolidation of monetary union.

Assistance to countries facing difficulties should be conditional on respect for the conditions and objectives of the plan for relaunching economic union, as opposed to those of an unregulated market where all forms of competition – including fiscal and social dumping – appear possible.

The eurozone is disadvantaged by the absence of a unified instrument for managing debt and issuing loans. As suggested by several political leaders, we need a European treasury which could turn a significant part of Member States' debts into euro-bonds. Joint financial engineering of the euro could then be developed in partnership with the Eurogroup of finance ministers, the European Central Bank and the European Investment Bank.

This would boost eurozone borrowing capacity and the liquidity of European financing channels, which in turn would facilitate the development of joint investments in training, research, industry and EU infrastructure, with beneficial direct effects on growth, employment and competitiveness.

The rating of eurozone public debt should also demonstrate greater transparency in the criteria used. Regulation of this should be strengthened and overseen by a European rating supervisory agency with autonomous status and guaranteed independence.

The euro should finally exert its full weight in international economic and financial authorities. This would mean mandating a single voice to speak on its behalf, as is already the case in WTO trade negotiations.

3. Convergence instruments in support of the stability pact

The heralded strengthening of the stability pact has not yet secured an effective framework for eurozone economic policies and should not be limited to increased warnings and stiffer penalties, vital though these may be. It should also and above all be supported by joint instruments to facilitate convergence in such sensitive fields as budgetary and fiscal policy, where each country naturally tends to act autonomously. The increased diversity of the Member States does not make this exercise any easier, but it does make it even more necessary.

One priority should be a direct commitment by heads of government to coordinate budget policies, over and beyond their ministers. This would facilitate the decisions and trade-offs needed to reduce public debt while also bringing economies of scale. An annual meeting of euro-country leaders should be scheduled before the adoption of national budgets.

This budgetary convergence would necessarily have to be accompanied by approximation of fiscal policies: another daunting task where the spade-work has yet to be done, as national taxation systems are not just disparate but often conflicting.

A further priority would be to regulate a fair competition between tax systems. A missing common framework encourages fraudulent channels, makes it harder to redress public finances and creates injustices which are keenly resented in these difficult times. Tax systems are at present too strongly skewed towards under-taxation of taxable items that can be relocated (capital, business headquarters and branches) with no concern for crossborder and regional balances, while taxable items and persons who are less mobile (work, residents) face over-taxation.

One vital clarification would be to harmonise tax bases, starting with company taxation, according to a binding multiannual calendar. All double taxation should be abolished without needing bilateral agreements between countries. A definitive VAT system simplifying life for operators should also be adopted at last.

Re-balancing of tax rates seems desirable in the longer term but would have to be conducted gradually and in an open framework. The establishment of a European "fiscal snake" would be a useful step for setting the process in train and managing it.

4. A European budget enabling economies of scale

Economic union implies that States view the European budget as something other than an additional expense. Admittedly, in difficult times such as the present it is not easy – particularly if one is a "net contributor" – to be more open-handed when it comes to the European budget than with one's own.

In order for it to be in everyone's interest to raise the current benchmark of 1% of GDP, this budget should be given a more dynamic profile and focused more on projects of joint interest, while ensuring more autonomous and better targeted own resources.

One priority should be the development of general interest services on a European scale justifying budgetary transfers in fields where they would be globally more effective and less costly than on a national scale, while also ensuring the security and competitiveness of an integrated economic union.

The first benefit of this approach, through significant economies of scale, would be to reduce the still ruinous cost of "non-Europe" which no-one has dared to recalculate since the Cecchini report 22 years ago. This is a renewed priority at a time when we are being obliged to reduce operating costs all over Europe and improve our productivity in the face of international competition.

The second benefit, by developing European public/private partnerships, would be to relaunch the investment needed by our industries and our common infrastructures (cf. security, environment, energy, communications) and support economic activity at a time when it risks being seriously hit by austerity programmes.

For such a scheme to work, it would be necessary to ensure that the overall tax burden does not increase, but is instead rationalised and gradually lightened through these transfers.

One could thus envisage a European budget of 5% of GDP in 2019, by which time it would be able to support the establishment of an economic union worthy of the name.

5. Let's prove it again: nothing's impossible for Europe

After the customs union which formed the first stage in 1968, the single market the second in 1993 and the monetary union the third in 1999, the economic union is the only stage left to round off sixty years of sharing and to give Europeans the set of rules for their "condominium". A 2019 target date would be feasible if Europeans decided on it. Admittedly, while customs union and monetary union were termed verifiable achievements, economic union - like the single market - will require more complex and in some respects more permanent work. But we just need to get it underway.

After so many delays and prevarications, is this still achievable? Deep-seated conservative attitudes, corporatism and conflicts of interest on the subject give grounds for doubt. But past experience has shown – even and especially when we least expected it – that there's no such word for European challenges as can't. Who would have bet 30 years ago on the lifting of border controls, 25 years ago on monetary union, 20 years ago on eastward enlargement, or even just one year ago on a European monetary fund? And yet pioneers from both Member States and EU institutions have got the Europe of those days to achieve the unexpected, the improbable and even the impossible.

Today, without economic union the advances which we owe to these pioneers remain incomplete and thus reversible: it would be much easier to walk back down the steps than it was to climb them. Because "nothing's impossible for Europe" works both ways when the future is not determined in advance. Monetary union "might" collapse tomorrow, breaking the single market. But economic union "might" also assert itself tomorrow, securing the future.

This is why Euro entrepreneurs today call for new pioneers to make a bold, all-out commitment to the economic union they were promised. To put Europe on a solid footing and enable the Europeans to make their mark in a globalised world.

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