EUROPOLITICS

CHRISTOPHE GARACH

Editor-in-Chief

EMU: Danuta Hübner responds to Jean-Claude Juncker

The former regional policy commissioner and current MEP answers the 11 questions submitted by the Commission president to the member states

By Christophe Garach • **12 March 2015** Last updated 10:32

MEP Danuta Hübner (EPP, Poland), ©EP

Is the current governance framework for the Economic and Monetary Union sufficient? This is one of the 11 key questions submitted by Jean-Claude

Juncker to the member states at the latest informal European Council, in February. As the EU institutions work behind the scenes putting together a new agenda to complete the EMU, *Europolitics* has re-opened the debate by submitting these 11 questions to a panel of experts. Below are the responses given by MEP Danuta Hübner (EPP, Poland), chair of the Committee on Constitutional Affairs (AFCO) and former commissioner for regional policy.

How can we ensure sound fiscal and economic positions in all eurozone member states?

While national efforts and structural reforms matter strongly for a healthy system, without a new model of economic governance, sound fiscal and economic positions will not come.

This reform is a process, which the sooner we seriously start, the better the outcome will be. It cannot be an open-ended reform but a process gradually moving towards a new model of economic governance in the eurozone. And it will have to involve and unprecedented level of shared effort, cooperation and coordination at the member state level and between member states and the Union.

How could a better implementation and enforcement of the economic and fiscal governance framework be ensured?

We need a commitment catalyst for structural reforms and we have to increase the national ownership of reforms, especially in the context of the 'European semester'. We also need a mechanism to ensure that reforms are implemented. There was a point at which the idea of having a contractual arrangement backed by a financial instrument was floated. This would have brought the involvement of national parliaments. It seems this debate is no longer with us. We will need to think of alternative mechanisms that can achieve this purpose. These mechanisms will have to incorporate the national parliamentary dimension as well.

Ideas will have to focus on a more effective control of national budgets as well as some form of European fiscal capacity to improve shock absorption.

Is the current governance framework – if fully implemented – sufficient to make the eurozone shock-resilient and prosperous in the long run?

The current governance framework could clearly use some improvements. What the euro urgently needs today is a genuine fiscal union. This is politically difficult of course, as it comes along with ideas such as setting up a European treasury, with a minister of finance, a taxation capacity and possibly, further down the road, some form of debt mutualisation.

But we also need to deal with accumulated debt without falling into the trap of moral hazard. This is an immediate challenge that has to be tackled.

We will also have to see whether we can put in place all the changes we need on the fiscal front without treaty change or whether we need to also start this debate soon.

In the short term we can also start by looking at the recommendations addressed to the eurozone as a whole in the context of the 'European semester'. These recommendations still lack teeth. Who are they addressed to, who is supposed to act them out? We need to answer these questions.

To what extent can the framework of EMU mainly rely on strong rules and to what extent are strong common institutions also required?

The rules are key but we do need a move from rules to institutions. Strong common institutions are essential, especially when it comes to ensuring the democratic accountability of the policies we are putting in place. Strong rules will not work on their own. We are already witnessing a changing institutional landscape. I have here in mind not just the recent clustering of the Commission, but also the new competences acquired by the EU institutions in recent years. But there are more things to be done to improve both the inter-institutional and the intra-institutional strength of Europe. Whichever way we go about it, we will need to ensure that the institutions are efficient, legitimate and flexible (in the sense of coping with various appetites and degrees of integration in the single market).

What instruments are needed in situations in which national policies continue – despite surveillance under the governance framework – to go harmfully astray?

If we set up a genuine fiscal union and a fully-fledged political union, questions such as this would be far easier to answer and we would have at our disposal tools to deal with such situations. We have already the cohesion policy macroeconomic conditionality in place. We need more

involvement of national parliaments, which can effectively deliver the national part of the accountability of European policy making.

Whatever we do, we will need to ensure that the new framework is accountable. Certainly the old issue of eurozone European Parliamentary dimension would come back on the agenda. It would be difficult to introduce instruments of legitimacy thorough the back door, continuing the treaty stretching exercise.

Has the fiscal-financial nexus been sufficiently dealt with in order to prevent the repetition of negative feedback loops between banks and sovereign debt?

It is true that we have come a long way and have made some bold steps in breaking the vicious link, but we are not there yet. So today is certainly not the time for complacency. We still need to complete the European banking union, we are for now missing a single deposit guarantee scheme, as the latter remains simply harmonised at the national level. We also need to continue thinking about the rules we have already put in place. I have here in mind the legal basis of the SSM, which is still rather weak.

How could private risk-sharing through financial markets in the eurozone be enhanced to ensure a better absorption of asymmetric shocks?

We have already seen major efforts towards ensuring private risk-sharing. I have here in mind the Single Resolution Mechanism, the second pillar of the banking union, and the fund set up through it. This fund will be mutualised progressively such that in eight years' time we will have a fund financed by banking sector contributions from all over the eurozone. We are already witnessing risk-sharing also via the creation of national resolution funds under the bank recovery and resolution directive. As we lay out the first pillars of the CMU, we will also need to ensure we bear the risk-sharing issue in mind.

To what extent is the present sharing of sovereignty adequate to meet the economic, financial and fiscal framework requirements of the common currency?

We have come a long way in creating financial unity, but we are still working on decreasing financial fragmentation. Certainly, more sharing of sovereignty is needed, and here a fiscal union is an utmost priority. The common currency will simply not live up to its true potential without a fiscal

and political union in place. Sovereignty is not just about an unprecedented level of shared effort, cooperation and coordination, but also about a sharing of sovereignty involving rights and responsibilities. We also need to do more to tackle the supranational level of governance.

Is further risk-sharing in the fiscal realm desirable? What would be the preconditions?

Debt mutualisation is and will remain a delicate issue. Still, this is an issue which we will need to address. The work carried out by the European Commission expert group on debt redemption and eurobills provides interesting food for thought and could be used as a starting point for further discussions. We should also bear in mind that we have already opened the door to the first signs of ‘eurobonds’, I have in mind here the purchases of EU institutions’ securities by the ECB in its QE plan. Any further move on fiscal risk-sharing would have to include stronger oversight and incentives for sound national fiscal positions as well as a genuine break between sovereigns and the banking sector.

In this context, it is also worth exploring the option of a European unemployment insurance scheme, which seems to be a realistic solution in the context of the current debates on the European labour market.

Under what conditions and in which form could a stronger common governance over structural reforms be envisaged? How could it foster real convergence?

Competitiveness divergences had been a major crisis factor, their potential continues to be strong as the macroeconomic imbalance procedure has not yet developed into a powerful preventive and corrective instrument for competitiveness. Moreover, the non-existing single European labour market will continue to act against competitiveness convergence in the EMU.

There is no alternative for a move forward on fiscal integration. To what extent monetary policy can address all dimensions of crisis has already been tested. Well-functioning national fiscal mechanisms must be in place and deliver. But it will not work without well-governed fiscal surveillance of debt sustainability at the EMU level.

How can accountability and legitimacy be best achieved in a multilevel setup such as EMU?

The EU has two very important layers of accountability, the national and the supranational. In order for the legitimacy and accountability of the EMU to be ensured, we need accountability coming from the national and European level and good cooperation between them. We need to bring the two closer together. There is room for improvement here. Initiatives such as those that form part of the ‘European semester’ and the ‘fiscal compact’ (which needs to be incorporated into the treaty), which create platforms for bringing the two levels closer together, are extremely useful, but not enough. Further action is required here. As mentioned before, genuine legitimacy will require treaty change, and I believe we are coming to the end of the current treaty stretching episode.