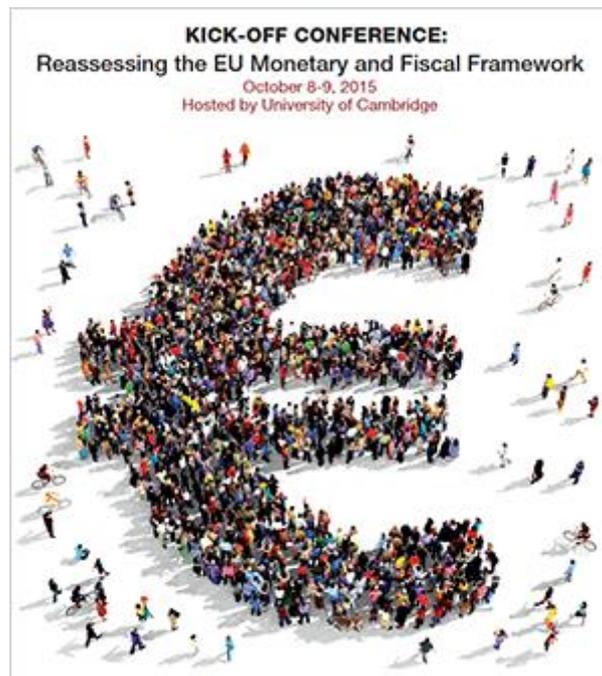




## A Dynamic Economic and Monetary Union

### Reassessing the EU Monetary and Fiscal Framework

ADEMU Kick-Off Conference, October 8-9, 2015



Round Table: “Strengthening the EMU in the aftermath of the Greek crisis”

**Introductory words, René Smits** (edited after conference to include references to the panel discussion with the audience)

#### **0. Disclosure and disclaimer**

Alternate member of the independent review panel for the ECB’s supervisory decisions (ABoR); consultant on EMU law and banking regulation; Professor of EMU law, University of Amsterdam; Visiting Professorial Fellow, CCLS, Queen Mary, London.

Subject to professional secrecy.

Views are personal, not to be imputed to ECB, SSM, or ABoR.

*I would like to share my ideas about EMU's development and research on a dynamic EMU, grouped under four headings, each identified as relevant for a particular aspect of ADEMU research:*

## **1. Four legal themes**

### ***ADEMU legal perspective***

*In his keynote speech this morning, Joaquín Almunia, made quite a number of the points I had prepared to say under this heading.*

a) **Economic governance is too complex, byzantine and contentious in approach** (Union versus Member States). We have sufficient contention and divisiveness in Europe already.

**Focus should be on joint economic policy making.**

We should explore the limits of Article 122(1) TFEU, the sole Treaty provision endowing the Union with its own powers to implement economic policy (beyond the coordination of Member State policies) .

#### ***Article 122***

(ex Article 100 TEC)

1. Without prejudice to any other procedures provided for in the Treaties, the Council, on a proposal from the Commission, may decide, in a spirit of solidarity between Member States, upon the measures appropriate to the economic situation, in particular if severe difficulties arise in the supply of certain products, notably in the area of energy.

b) **Integration of intergovernmental, public international law instruments in Union law proper.** Already foreseen in these instruments ('Fiscal Compact', i.e. Treaty on Stability, Cooperation and Governance in the Euro Area; European Stability Mechanism treaty; Single Resolution Fund agreement), this integration is on the agenda and must be pursued to arrive at a consistent set of rules for Europe's economic and monetary union.

c) (at last....) **Single representation of Euro Area in the IMF and other international fora.** At long last, the relevant TFEU provision should be actually implemented. Novel interpretation of old terms may be needed here (e.g., 'country' in the IMF's Articles of Agreement).

**Article 138**

(ex Article 111(4), TEC)

1. In order to secure the euro's place in the international monetary system, the Council, on a proposal from the Commission, shall adopt a decision establishing common positions on matters of particular interest for economic and monetary union within the competent international financial institutions and conferences. The Council shall act after consulting the European Central Bank.

2. The Council, on a proposal from the Commission, may adopt appropriate measures to ensure unified representation within the international financial institutions and conferences. The Council shall act after consulting the European Central Bank.

(í )

d) (yet, in spite of b) above) **Not shying away from using 'extra-treatytorial' instruments initially, if necessary.**

If need be, progress may be made by using legal acts outside of the Treaty framework, provided – later on – these are fully merged into Union law.

## 2. Four areas of urgent action

*ADEMU policy issues*

### a) **Joint partial financing of national unemployment insurance**

([Glienecke Group](#) proposals); [Bruegel research](#) is relevant here.

### b) **Joint issue of Eurobonds**, starting with short-term Treasury bills

One step beyond joint financial market borrowing through EU and ESM – ideas already formulated ([blue bonds/red bonds proposal](#), [German Council of Economic Experts](#), [ELEC proposals “Euro T-Bill Fund”](#)). Disclosure: I was a [member](#) of the group preparing the ELEC proposal.

### c) **A Euro Area Sovereign Debt Restructuring Mechanism**

An EU or EA SDRM is not in conflict with advancing strong federal fiscal powers). Aware of the failure to establish a global [SDRM](#) (IMF, 2001, [Anne Krueger](#)). Nevertheless, two-pack regulation already foresees wide-ranging powers overseeing a State in financial difficulties<sup>1</sup>. One step further: statutory (instead of only contractual means currently used: [CACs](#)) mechanism established ex ante for orderly restructuring. Alike mechanisms available under national law in individual States. Alike [municipality bankruptcy under US law](#). May be combined with mechanism for joint debt issuance (part of the conditionality of debt issue).

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<sup>1</sup> [Regulation \(EU\) No 472/2013](#) of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability, OJ L 140/1, 27 May 2013.

**d) Preparing joint Euro Area decision-making**

[Commission](#), [Euro Group](#), [COSAC](#) [Conference of Parliamentary Committees for Union Affairs of Parliaments of the European Union] for Euro Area?

A Euro Area Treasury, as counterpart for ECB, and organiser of joint market access, joint financing of insurance schemes.

[Called for consistently by former ECB President Jean-Claude Trichet.](#)

### 3. Re-thinking conditionality and conventional approach

#### ADEMU academic approach

#### a) Structural reform before austerity, challenging 'conventional wisdom' or policy consensus



*Interesting contribution by FT journalist [Martin Sandbu](#) in recent book: *Europe's Orphan*, a pro-single currency study debunking popular myths on the euro crisis, yet attacking the policy response of bail-outs and avoidance of public default, sometimes breezing over legal issues, such as the boundaries of the ECB's mandate.*

#### b) What can actually be seen on the ground, by citizens, business?

*This is an issue in respect of policy measures. Research, also, should be responsive to societal needs.*

Actual impact of investment (European Fund for Strategic Investments [EFSI], 'Juncker Fund')?

Actual realisation of the internal market? How smooth does it work when one wishes to work, or do business in another Member State? Can we, finally, do away with the carving up of the digital market (TV streaming, on-line buying, internet bank payments)?

Focus on the practical use and societal benefit of research.

### **c) Lateral thinking: combining the crises**

*The lack of imagination on the part of policy makers to see beyond their own area and combine crises solutions is baffling. Researchers may be able to see opportunities by looking beyond their own field.*

Energy crisis: solar energy in Greece needs new links in cross-border electricity transmission (grid connection)

Refugee crisis: major assistance to frontline states, also peripheral economies

### **d) Too loose, even sloppy, discussions in the public sphere**

Use of terms without definition ('economic union', 'political union', 'democracy'), sometimes with implied political agenda ('unelected bureaucrats', 'unelected prime minister' [FT vis-à-vis Mario Monti in Italy]). Use of 'countries' instead of 'Member States', as nations embedded in the Union ([Chris Bickerton](#)'s referred to this today).

*This brings me to my final set of observations.*

## Cultural aspect of European integration

### ADEMU philosophy, implied assumptions, wider issues beyond

#### **a) A common second language**

Needed for better functioning labour market, a single media space, and for European consciousness (teaching English as from age 4).

#### **b) Transparency and information**

Openness on what exactly is done, and how, instead of current misinformation by media and politicians.

Educating people on how ESM functions, to debunk myth of Northern budget money going to Southern recipients (ESM is joint borrowing and on-lending instrument of all 19 EA Member States; budgets affected by guarantee and ESM contribution only, so risk of non-repayment exists but no direct budgetary flows now requiring austerity in creditor States). The need for transparent and truthful information extends to the illegality of euro exit, mandate limitations and the consequences of Brexit.

#### **c) Awareness of our frames of mind and limits of our own views**

More consciousness of linguistic differences and meaning is needed.

Examples (English – German):

Debt = *Schuld*, meaning both debt and guilt, or (moral) fault.

Austerity = *Sparmaßnahmen* (savings measures), highlighting positive aspect of budgetary measures, likening them to what individuals and households consider virtuous.

True listening required.

Expanding consciousness. An imperative for ADEMU and for us all.

René Smits, Cambridge, 9 October 2015