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AFTER THE GREEK DEAL: THREE DANGERS AND THREE OPPORTUNITIES – WHY IT IS URGENT TO COMPLETE EMU

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Following what seems to be the end of hostile negotiations, our Presidents, Henrik Enderlein and Gerhard Cromme, analyze the dangers and opportunities resulting from the agreement for a strengthening of the EMU. They identify notably the risks of complacency, the start of a blaming game, and of "fiddling about" in the absence of a long-term strategy and a political vision of the EMU. However, this agreement could also prove to be a basis for intelligent reforms that push to revisit European fiscal policy, and to reinforce investment and integration. This tribune calls for greater Franco-German cooperation in order to finally realize the historic goal of completing the EMU.

The good news of the 13 of July 2015 is that Greece will remain inside the euro area. At the same time, the negotiations have shown all the weaknesses of the set-up of the single currency, which remains incomplete and urgently needs revision. A currency union without a true economic union is not sustainable - as stated in the Delors Report in 1989. The tensions and threats of the past five years, five months and in particular the past five weeks have shown the deficiencies of a monetary union that can only function if it is effectively based on the close coordination and cooperation of all member countries in a context of irrevocable commitment. As coordination, cooperation and irrevocability have explicitly or implicitly been put into question, the crisis is affecting the very foundations of the social and political contract on which the European Union is based.

It will take time to assess the consequences of what the euro-area has just gone through. But in the aftermath of yet another last minute decision, we think it is high time draw the right conclusions. We see three main dangers and three fundamental challenges.

1. Three main dangers

1.1. Risk of complacency

The first danger is complacency. For sure, many policymakers in Europe have an understandable interest in looking at Greece as an isolated special case saying its political and economic context is at the origin of this crisis and thus also proof that nothing of that kind will ever happen again. We do not think this assessment is correct. While there are special conditions in Greece, the case is indicative of more fundamental disagreements on the nature and functioning of the euro-area. The single currency was built in absence of a true economic union and in absence of instruments to foster more convergence, more solidarity, and more coordination. In the crisis, many instruments were developed ad-hoc to fix some of the problems. But if we are honest with ourselves, then two key challenges remain unanswered: how to achieve greater risk-sharing and how to achieve greater sovereignty-sharing. Minimizing the consequences of the discussion with Greece would be paramount to not taking up those challenges. This is a real danger.

1.2. Dangerous blame-game

The second danger is to indulge in a lengthy blame-game. Inevitably, some continue to say that this deal was forced by a certain vision of how the euro-area should function. Others say it is the consequence of a lack of cooperation by the Greek government and a lack of trust in general. Such debates obviously also relate to discussions over austerity vs. excessive debt and lack of structural reforms. We do not believe such debates can contribute to a forward looking discussion on how to integrate the euro-area further and to complete EMU. This danger is of particular relevance for the Franco-German relationship. The common currency has always been a joint project pushed by both countries. It is of crucial importance that backward looking criticism will be replaced by forward looking constructive dialogue on how to strengthen the euro.

1.3. Muddeling-through without vision

The third danger is the continuation of muddling-through policies, without a clear strategic vision. Every difficult discussion in the euro-area in the past five years has given rise to idiosyncratic responses, often developed in a few days or overnight. The Greek "trust fund" is the latest newcomer among the crisis tools. It creates a dubious institutionalization of mistrust from a collateral policy that is not what a political union based on mutual trust should stand for. If Europe requires more sovereignty-sharing and more risk-sharing, then the agreement with Greece is just another example of ad-hoc sovereignty-sharing with only very limited input of legitimacy or democratic debate and of ad-hoc risk-sharing through opaque channels such as Emergency Liquidity Assistance and an ESM loan, which is built on the dubious illusion of full repayment. The experience of the years 2010-2015 shows that quick fix solutions run the risk of neglecting the big picture implications. The EFSF was important, but it was ill-designed because it neglected basic democratic control mechanisms. The banking union was a key element in breaking the viscious circle between banks and sovereigns, but until today it is still incomplete and fragile, lacking a real backstop and the answer on how to share risks. The OMT, as important as it was in fighting the crisis, is still not more than a one-page press release with unclear consequences for the overall functioning of the euro area. Finally, the Troika architecture was perhaps the biggest failure in the short-term activist crisis policy of the past years. Neither the role of the IMF nor of the ECB was carefully assessed, nor was the democratic involvement of the program countries in a process that amounts to a de-facto sharing of sovereignty.

2. Three fundamental challenges

In this context, the discussions surrounding Greece give rise to three specific challenges that we urge European policy-makers to take up with calm determination but on the basis of a strong political commitment.

The background behind these challenges is to need to design a comprehensive policy response to the ongoing crisis in Europe. This response needs to derive from the political agreement that the problems in Europe today are neither exclusive supply-side problems, due to the lack of structural reforms, nor exclusive demand-side problems, due to the lack of fiscal stimulus, nor a pure failure of European governance, due to a lack of political integration. Europe is weak on all three fronts. What is needed is a carefully balanced combination of more investments, smart reforms leading to further convergence and growth, and a quantum leap in integration, based in particular on much stronger Franco-German cooperation.

2.1. Need for smart reforms

On reforms, a fundamentally different approach is needed, departing from the "laundry list" logic of disconnected reforms that suggest that there is one-size-fits-all method that every European country could and should apply. Reform proposals need to bring in political considerations on what the growth model of a country is; how through well-connected and comprehensive packages of economic policy-changes a country can be led back to a plausible growth path. Also, some reforms are politically more costly than others. And some reforms can more easily be implemented in a favorable economic context than in recession. Also, was suggested in a Report by Henrik Enderlein and Jean Pisani-Ferry, structural reforms do not at all necessarily imply deregulation or the dismantling of the social models in Europe. Rather, smart reforms implemented in well-designed reform clusters can give rise to a strengthening of social dialogue in the labor market, of the development of European regulatory approaches that are not the same as some deregulation approaches in other areas of the world, and end to unfair rent-seeking in over-protected professions where only a few people benefit but the large majority has to pay the price. Europe needs to develop a new reform agenda that is socially fair and based on a high-standard European regulatory model.

2.2. Changing the Eurozone's fiscal stance and boosting investments

On investments, Mario Draghi once said, investments are today's demand and tomorrow's supply. That assessment is correct. Europe needs to recognize that there is only one solution to the conundrum of high-debt in the member states and the need for a change of the fiscal stance of the euro-area: a focused strategy to increase investments starting at the European level. This strategy has two pillars. First, it needs to be based on regulatory clarity. The lack of private investment in Europe derives largely from regulatory and political uncertainty in core areas such as energy or the digitalization of all sectors of the economy. A push towards European energy union could lead to a real investment boost. And an agreement on a single and identical piece of legislation on data protection by the largest possible number of European countries, replacing today's 28 different legal contexts even if they derive from a single European approach, would increase the market size dramatically and help Europe to be more successful in innovation.

But let's be clear. The regulatory solutions to investment will not be sufficient. Money is also needed. This is the second pillar. Given the high debt levels, the solution is to combine the consolidation in member states with a real investment offensive at the European level. The Juncker plan in its present form will not provide that boost. It is a very useful device to try to incentivize private investments. But lacks own funding from fresh money. It is not too late to put new money into that fund. Solutions based on future tax income or unused structural reforms are on the table. In addition to that investment offensive at the level of the 28 countries, the euro-area needs to develop an own vehicle to boost public investment. Some call such an instrument a euro-area fiscal capacity, others talk about a super-cohesion fund. Terminology is not important, but the function of such a fund. Many countries in the euro-area have basically stopped to invest. And it is striking that this is not only true in program countries. Given the high debt levels and the threat of rising rates, this development is explicable, but it is still a source of concern. To overcome the challenge, the euro-area needs to build a financing vehicle, bringing together funds from member states but also own money based on euro-area debt. We are aware that building such a tool requires far reaching and complex discussions on how to govern such a vehicle and ensure democratic control. But Europe needs to take time now to build this vehicle. That would be an extremely important response to the events of the past weeks.

2.3. A quantum leap in integration, based on much stronger Franco-German cooperation

This relates to the necessary quantum leap in integration. The euro-area is still a weakly integrated political entity. Further work is needed on at least four fronts. First, Europe needs to start a clear and unstoppable process leading towards genuine Economic Union in Europe. EMU lacks convergence. EMU lacks mobility. EMU lacks solidarity. EMU lacks risk-sharing. EMU lacks sharing of sovereignty. We need an agreement by the Heads of State and Government to immediately set-up a process in several phases leading from immediate action, to a first round of implementing measures, to finally a change of the Treaties to complete Economic and Monetary Union. The recent Five Presidents' Report makes useful proposals in this respect. Second, Europe needs to work on its fiscal framework. The ESM architecture is still incomplete, lacking a true pooling of resources and also lacking democratic control mechanisms at the European level. There has been too little follow-up in this area in response to the 2012 Four Presidents' Report, which strongly insisted on this point, but also to the Report coordinated by Gertrude Tumpel-Gugerell on common euro-area mechanisms such as a debt redemption fund, or euro-bills. The development of a European Monetary Fund headed by a European Finance Minister and based on a limited amount of common euro-area debt should be the benchmark proposal in this discussion. Third, financial union needs to be completed with a real backstop to the single resolution fund of the banking union and a mechanism that allows to deal with possible deposit flight in the euro-area, such as a common deposit insurance or re-insurance. Fourth, and finally, the sources of legitimacy of EMU need to be reviewed. There should be strong and innovative democratic control mechanisms within the existing Treaty structure, making sure that the all-important decisions at the European level in a context of increased sovereignty-sharing and risk-sharing find direct legitimation by the European parliament and national parliaments. Political union in the euro-area ultimately implies that the euro-area is not only the sum of its national parts, but a political entity in itself that has its own genuine interests and thus a strong political backbone to steer policy making for the euro-area as a whole.

France and Germany will have to play a particular role in putting the euro project back on track. France and Germany should become a model and showcase of true economic and political integration. But this requires more than solemn joint declarations that often hide disagreements on substance behind carefully draft but hollow wording. The most recent Franco-German contribution to the debate of the Five Presidents is a telling example in this respect. To put things simply: France and Germany need to make up their minds of how the euro-area can be improved. The differences in perspective are clear. There is a lot of hesitation in France about more sovereignty-sharing. And there is a lot of hesitation in Germany about more risk-sharing. But both sides need to acknowledge that sticking to these positions is likely to produce more and more deadlocks, leading in turn to crises such as the one we have just gone through with Greece. France and Germany together should focus on how closer and enhanced cooperation between the euro-area countries can strengthen the core of Europe from within.

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The situation after the last episode in the Greek drama is serious. History will look back at Europe of the years 2010-2015 and very severely judge the ill-designed process with which Economic and Monetary Union went as far as openly discussing that a country might leave. The most important task today is to avoid that the problems that led to this inconclusive policy debate can arise again in the future. France, Germany and the entire European Union should take this discussion very seriously.

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