

The future of the EU: Necessary integration policies for progress towards establishing a Stability union

1. Starting positions

To overcome the current debt crisis in the euro area permanently we need to meet four challenges:

Firstly, more short-term crisis management is inevitable in order to deal with the situation in Greece above all, and the prevention to the contagion of states and banks.

Secondly, we must take decisive steps towards forging a real union of stability. Central to this is the establishment of a culture of sound financial management that is binding and firmly anchored. This is the issue that we have to address in the coming days and weeks, and herein lies the focus of this paper.

Thirdly, with the construction of an economic and fiscal union of stability, questions about the political constitution of Europe will be posed in a new light. We will need to think about the functioning and democratic legitimacy of the European Union anew. Therefore in the longer term we need a debate about the way in which the EU will develop into a political union. To that end we need to give Europe the financial constitution that it needs. The establishment of an independent European credit rating agency must be further promoted in this context.

Fourthly, for a permanent culture of stability to be useful corresponding economic growth is required. Our policies must therefore always be focussed on strengthening Europe's competitiveness. This includes completing the internal market, and concentrating in the 2014-2020 EU budget negotiations on investment in education and research and fewer subsidies.

2. What elements are needed for a union of stability?

A community-wide monetary policy can not continue to operate without an integrated economic and fiscal policy. This is the basic construction deficit of the Economic and Monetary Union (EMU). Only if this deficit is overcome can the euro zone become financially stable and economically strong in the long-term.

So far, there has been a lack of opportunities to implement measures tried and tested in difficult circumstances into practice.

Currently, there is no real possibility of imposing discipline on member states with massive budget problems. All previously existing options were premised on the voluntary principle. Moreover, there is no credible and workable solution to problem of excessive indebtedness that can no longer be solved by the bailout package. We must therefore also create the opportunity for states to default in an orderly manner, and further develop the ESM into a European Monetary Fund. For the establishment of such a real fiscal union of stability, the Treaties need to be amended in several places.

a) Strengthening the Stability and Growth Pact

Here a multistage process is possible:

- The theoretical sanctions should be upgraded to real automatic sanctions. Sanctions in the event of excessive deficits would then be able to be directly initiated by the Commission, even without a referral from the Council. This would clearly increase the effectiveness of the Stability and Growth Pact, and require a change to Article 126 TFEU. We should also impose sanctions in the preventive section of the Stability and Growth Pact in order to be able to

nip emerging problems in euro-zone countries in the bud. Council decisions taken by qualified majority must be replaced here by reverse qualified majority voting, which would require the procedures in Articles 121 TFEU to be adjusted accordingly.

- Where the provisions of the Stability Pact are consistently violated, the possibility of a right of action before the European Court of Justice (ECJ) should be created, something which is presently explicitly excluded in the Treaties. To allow such an action, paragraph 10 of Article 126 TFEU should be deleted. The right of action would then apply to both the Commission and individual member states.
- To what extent persistent violation of the provisions of the Stability and Growth Pact could result in intervention in the budgets of member states should be fully assessed. In the discussion it has been suggested that the post of a European "Stability commissioner" could be established, who would have the right of direct intervention in national budgets in the event of permanent breaches of the Stability Pact, or could make suggestions for relevant Council decisions. In Germany, this would raise fundamental questions of constitutional compatibility (given the financial autonomy of the Bundestag). However, it is conceivable that such a Commissioner could have direct decision rights over the use of structural and cohesion funds if a country does not comply with its commitments under the Stability and Growth Pact.

b) Development of the European stability mechanism into a "European Monetary Fund"

The instrument of the ESM is not sufficient. It requires real intervention rights in the budgets of those euro member states who are encompassed by the ESM's programme, and who potentially place the stability of the eurozone at risk. The ESM must also be capable of executing an orderly default of a eurozone member state. These two steps would allow the ESM to really become an "EMF".

Rights of intervention in the households of ESM programme countries:

Those countries who have not been able to keep their fiscal policy in order and have had to claim assistance under an ESM programme will have to accept rights of intervention in their national budgets.

- If a Member State accepts a support program from the ESM, this shall automatically lead to a restriction of its budgetary sovereignty in the form of a veto at the EU level before the draft budget is presented to the national parliament of the affected country, in the event it fundamentally violates the principles of sound financial management, thereby jeopardizing the success of the consolidation and reform programme.
- If such a country is unable to satisfy the conditions of the ESM programme, it can have concrete budgetary measures imposed upon it, for example specific spending cuts or the establishment of new revenue streams.
- Furthermore, it should be checked - as a last resort - if even more stringent measures are required. Consideration could be given to obtaining the active support of the affected Member State.

The decision to intervene in the budget of another eurozone member state would be taken by other eurozone states following a recommendation made by the ESM. Since a possibility of intervention depends on the fulfilment of a specific ESM programme, the ESM should play a decisive role here. In each case however, the Commission should be included in the process, and there should also be close cooperation between the ESM and a potential "stability Commissioner" (if such a position was desired).

When the exact rights of intervention in national budgets of programme countries are being designed, the constitutional provisions on the budgetary autonomy of

the Bundestag must be observed in every case. The important thing is: it is about choices - with no financial obligations - for the other euro countries. Interventions in the budget of the affected member state will only take place following its application. The decision on the underlying ESM program will continue to require unanimity in every case.

The establishment of a procedure for an orderly default as part of the ESM:

For member states that are covered by an ESM programme, but despite complying with it are unable to achieve debt sustainability, the possibility of budgetary interventions is not sufficient. Therefore, there must also be the option of an orderly default in order to reduce the burden on taxpayers (in the other eurozone states), and also to provide the affected country with an opportunity for a fresh start. In the present ESM Treaty the possible participation by private creditors through so-called "collective action clauses" (CACs) is not sufficient.

The ESM should consider the request made by a member state for relief loans against the criteria of debt sustainability. If this is negative, the affected member state would instead receive loans for a limited time only, during which the procedure for an orderly default would be prepared.

In order to make sovereign defaults possible where they are unavoidable, the threat of instability in the financial system resulting from such a default must be able to be credibly excluded. A plan to maintain the stability of the financial system in the event of an orderly default needs to be developed in close co-operation with European banking regulators. This would determine which banks would be restructured and/or recapitalised, which will necessitate the drawing up of Europe-wide rules on bank restructuring.

3. How do we reach the Stability union?

In order to strengthen the Stability and Growth Pact and to further develop the ESM into a European monetary fund, international contractual agreements are required:

- For the creation of true automatic sanctions as well as the litigability of the Stability and Growth Pact for the ECJ (as well as, if applicable, for the establishment of a Stability Commissioner – depending on the extent of his right of intervention) a change of the EU Treaties is required.
- Also for the basic further development of the ESM into a European monetary fund a change of the European Treaties would be the clearest way and would moreover allow the fundamental involvement of EU institutions. In case this is not politically feasible, an alternative treaty between the Member States that is legitimate under international law ought to be considered.

For a change of the EU treaty a short, detailed and limited Convention should be drafted. Represented in a convention are always (Art. 48 TEU) representatives of the EU institutions, national parliaments and representatives of heads of states and governments. Such a convention should freely present proposals within its narrow financial-political mandate that will subsequently be decided upon by an inter-governmental conference. After national ratifications have taken place, the coming into force can be made possible in a short time (a few years). "Limiting the effect of the treaty changes to the Eurozone states would make ratification easier, which would nevertheless be required by all EU member states (thereby less referenda could be necessary, which could also affect the UK),

Outlook – from Stability union to Political union

Further development in the area of fiscal policy in the euro zone is essential for the permanent stabilisation of the euro, and also of utmost importance for the entire EU. Apart from its economic necessity, this would also be a great step forward in the integration of the EU. It will start with the euro states, but should of course also be applicable for the other Member States when they introduce the euro. It is of great importance that as regards to content or institutions there will be no decoupling of the Eurozone from the rest of the EU; this can be met best when the proposed steps of integration, where possible, be enshrined in the EU Treaties. The close linkage between Eurozone and EU Member States could also be underlined by the presence of the EU presidency when the Eurozone meets (also when the President is not a Eurozone country).

In addition to a change of the EU treaties to eliminate the construction of EMU deficits, a new open discussion about long-term and basic deficits of the EU (democratic legitimacy, efficiency, coherency etc.) has flared up. These questions should also be addressed in the medium term. The goal could be a fundamental development of the EU treaties. The two initiatives are not mutually exclusive, but rather will follow on from one another. The debate on the way towards a political union must begin as soon as the course toward stability union is charted.