

Think
Visegrad
V4 Think-Tank Platform

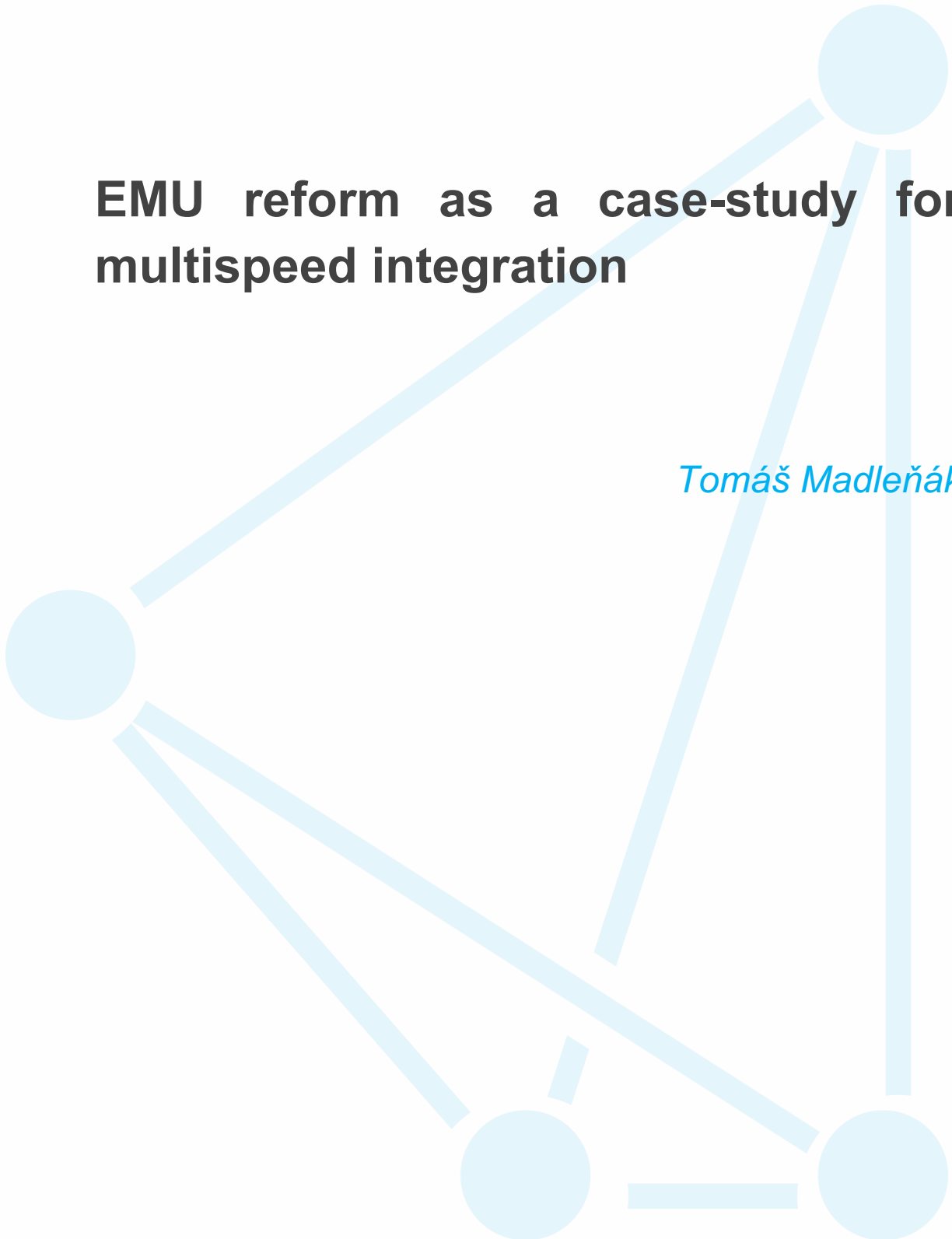
POLICY BRIEF

2018/December

Think Visegrad in Brussels

EMU reform as a case-study for multispeed integration

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Abstract

Ever since the Juncker's Commission opened the "Future of Europe" debate with the White Paper¹ of identical name, in which the "multispeed EU" was officially presented as a viable option, several more or less ambitious ideas were presented on the most exposed area, in which the multispeed (or two-speed) approach has been in use for quite some time already – the Economic and Monetary Union (EMU). In this short paper I will summarise some of these ideas, try to present and explain the positions of the V4 countries on them based on my on and off-record conversations with V4 representatives in Brussel; and present some basic recommendations on how to progress with the multispeed approach in this and other areas without alienating these countries, which decide not to join since the beginning.

Time for vision

The time after the United Kingdom citizens decided in a referendum on June 2016 to leave the EU was the time of crisis, as many feared this could shake the foundations of the EU. Instead, it paved the way for new visions. In the area of the Economic and Monetary Union, much of this new drive was provided by the now famous Emmanuel Macron's Sorbonne Speech², in which he famously, even if rather vaguely, proposed the creation of new and separate budget for the Eurozone and stated that "a budget must be placed under the strong political guidance of a common minister and be subject to strict parliamentary control at European level."

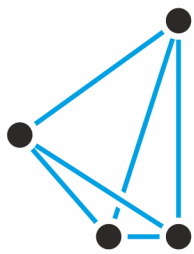
The idea of a separate budget and minister for the Eurozone indeed does sound a bit far-fetched and is considered "wild" and "completely unrealistic" by most V4 representatives, including Slovaks who are the only ones inside the Eurozone.³ Only representatives of the EU institutions themselves seem to have enough confidence in the EU to claim, that these ideas will materialise "sooner rather than later".⁴

¹ "White Paper on the Future of Europe," COM(2017)2025, European Commission, March 1., 2017. https://ec.europa.eu/commission/sites/beta-political/files/white_paper_on_the_future_of_europe_en.pdf (Access 25.10.2018)

² Macron, E.: "Initiative for Europe," Sorbonne speech of Emmanuel Macron - Full text / English version, Paris, 2017, <http://international.blogs.ouest-france.fr/archive/2017/09/29/macron-sorbonne-verbatim-europe-18583.html> (Access 25.10.2018).

³ Interview with Jakub Mazur, Permanent Representation of the Czech Rep. to EU, 25.6.2018; Interview with Peter Novák, Permanent Representation of SR to EU, Brussels, 28.6.2018

⁴ Interview with MEP Štefanec, Brussels, 27.6.2018



EMF and EDIS – Bring the EMU Governance Back to the EU Table!

Somewhat more realistic, yet still quite visionary, is the proposal to create the European Monetary Fund by strengthening the European Stabilisation Mechanism (ESM). The idea can be traced back all the way to the “Five President’s Report”⁵ from 2015. One of the fronts on which it advocated progress was “democratic accountability, legitimacy and institutional strengthening: reviewing the political construct of the EMU”⁶. As one of the key instruments of EMU is the ESM, which is built upon intergovernmental treaty and therefore completely out of the EU institutional framework, it lacks the democratic legitimacy and therefore needs to be integrated into the EU treaties system. The term “European Monetary Fund” itself is often accredited to then German Finance Minister Wolfgang Schäuble.⁷ The mostly German push for transform of the ESM to EMF, however, have its backing also in Slovakia, which does have some ownership of the project since it was during Slovak Presidency of the Council of the EU in 2016 when the taboo was broken and the real discussion on deepening EMU was started.⁸ The Slovak Ministry of Finance claimed that the Eurozone lacks supranational stabilisation mechanism that would elevate the effects of the local economic turbulences and therefore suggested the creation of some common fiscal capacity for the EMU, which would dampen the negative effects of the economic shocks.⁹

The positions of the V4 countries towards the reforms of the EMU can be generally divided between Slovakia, which places itself into the pro-further-integration camp, and the remaining 3 Visegrad countries, which are more reserved towards any changes that might have an impact on their national budgets. Yet at the same time, the remaining countries are driven by their desire to remain “at the table”, when the changes are drafted and decided upon, as they see themselves mainly as a part of EMU, even if not yet of the highest level of the integration – Eurozone. In this case, these positions converge to a great deal, as Slovakia seems pro-EMF as it pushes forward the idea of a supranational stabilisation mechanism, and the remaining 3

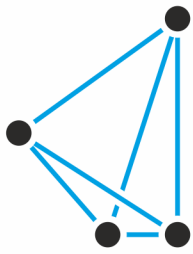
⁵ Juncker, J.C.: “Completing Europe’s Economic and Monetary Union,” European Commission, June 22, 2015, https://ec.europa.eu/commission/sites/beta-political/files/5-presidents-report_en.pdf (Access 25.10.2018)

⁶ “Report by Jean-Claude Juncker in close cooperation with Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz, Overwiev,” European Council, October 25, 2018, <https://www.consilium.europa.eu/en/policies/emu-report-2015/> (Access 25.10.2018).

⁷ “Berlin continues quest for ‘European Monetary Fund’,” EURACTIV.com, March 8, 2017, <https://www.euractiv.com/section/economic-governance/news/berlin-continues-quest-for-european-monetary-fund/> (Access 25.10.2018)

⁸ Gabrižová, Z.: The year of the EU Council Presidency. In: Brezáni, P: Yearbook of Slovakia’s Foreign Policy 2016. Bratislava: Research Center of the Slovak Foreign Policy Association, 2017, s. 30

⁹ Sedem dôkazov, že na veľkosti nezáleží: Pohľad expertov MF SR na priebeh a výsledky prvého slovenského predsedníctva. Ministerstvo financií SR, 2017, www.finance.gov.sk/Components/CategoryDocuments/s_LoadDocument.aspx?categoryId=11316&documentId=15418 (access 30.10.2018).



Visegrad countries welcome the idea as it brings the ESM back to the institutional framework in which they have a say as well.

The specific way in which the future EMF should function is, however, still not completely clear, and the support of V4 countries might still be influenced by specifics. Slovak republic is on one side with the German Federal Ministry of Finance, which considers¹⁰ it problematic that Eurozone's fiscal policy is dictated by Member States, thus necessitating a new framework for fiscal policy to avoid negative spillovers from the countries that are not behaving "fiscally responsible." Germany sees tools for this mainly in the area of Banking Union, specifically in the Single Resolution Mechanism (SRM) and Single Resolution Board (SRB). SRB should be supplied with more financial liquidity, by strengthening the SRB and incorporating it into the ESM, EMF could be created.¹¹ One pressing problem arises from the question: where should the money for the SRB/ESM come from? Possible solutions include the money of the European banks, but also a new European Tax on Digital Economy.¹² In this case, all V4 countries count between Germany's allies as they support this new taxation, which they confirmed by signing the Joint Declaration in the High Tatras on 5. October 2018.¹³

A relatively less ambitious, but much more specific, proposal is the creation of the European deposit insurance scheme (EDIS). The European Commission proposes to establish it in phases, with the final goal of establishing a deposit insurance fund with a target size of 0.8% of covered deposits (approximately €43 billion based on EC expectations).¹⁴ It is expected that a fund this size would be sufficient to cover the payouts needed even in crises more severe than the 2007-09 global financial crisis.¹⁵ In this area, Slovakia seems even more eager than Germany, which is traditionally reluctant to any ideas which push forward the principles of a transfer union. The rest of the V4 is rather neutral towards the idea, one of the reasons being that they are not part of the Banking Union. One of the possible explanations as to why Slovak Republic might seem more prone to even further integration than Germany lies with the trust of both the people and the elites. While in some countries the perceived possible economic losses or benefits of financial transfers might be the primary motivation to support or oppose such integration projects, one often overlooked aspect especially important for the post-communist countries is the idea of trust. The argument stripped

¹⁰ Möller, A. Head of ECFR Berlin. Juncker, Macron, Merkel: Future visions for Europe under the microscope. 17.4.2018, Berlin, Lecture.

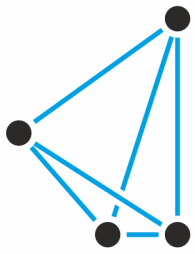
¹¹ Steinheuer, Wilfried. Deputy Director-General European Policy, German Ministry of Finance. *Fiscal Policy in the Eurozone*. 19.4.2018, Berlin. Lecture.

¹² „Fair Taxation of the Digital Economy,” European Commission, https://ec.europa.eu/taxation_customs/business/company-tax/fair-taxation-digital-economy_en (access 30.10.2018).

¹³ “Joint Declaration of V4 Finance Ministers on the Taxation of Digital Economy,” High Tatras, October 5, 2018, <https://www.mf.gov.pl/documents/764034/6517304/Deklaracja+opodatkowanie+gospodarki+cyfrowej.pdf> (access 30.10.2018).

¹⁴ “What is a deposit guarantee scheme?” European Central Bank, April 11, 2018, https://www.ecb.europa.eu/explainers/tell-me-more/html/deposit_guarantee.en.html (access 30.10.2018).

¹⁵ Carmassi, J., Dobkowitz, S., Evrard, J., Parisi, L., Silva, A., Wedow, M.: “Completing the Banking Union with a European Deposit Insurance Scheme: who is afraid of cross-subsidisation?” Occasional Paper Series, No. 208, European Central Bank, April 2018, <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op208.en.pdf> (access 30.10.2018).



to the bone would be that when people see their national institutions as less effective in governing their money, with national institutions being symbols of ineffectiveness, economic losses and corruption, they are more prone to provide supranational institutions with more of their sovereignty.

In case of Slovakia, the EU predominantly conjures a neutral image among the citizens.¹⁶ However, Slovak citizens have some of the lowest levels of trust in their national institutions, with the trust into the EU institutions being far higher. According to the latest available Eurobarometer data, only 21% of Slovaks tend to trust their national government and their parliament. On the other hand, 44% of Slovaks said they tend to trust the EU, 47% tend to trust the European Commission, and 49% tend to trust the European Parliament.¹⁷

Recommendations

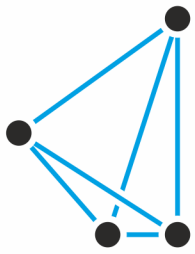
The Eurozone integration is a case study in both the multispeed approach's potential and possible hiccups. One of the most appealing arguments for the multispeed integration approach is that it has a pull factor. The avant-garde of willing countries create a project, lead by example, and sceptical countries will see whether it works well or not, and then their scepticism is weakened and they will join.

However, the processes of Differentiated Integration in the past almost never led to the projects and processes that would later be joined by all countries. With the notable exception of the EU Social Chapter, it always tended to lead into incomplete integration. Eurozone is a good example of this, being the prime example of the multispeed integration approach and its failure. All Visegrad states are formally obliged to become members of the EMU one day. However, practically none of the EU countries outside of it is even realistically considering it, and the EU is not pushing for it either. This, naturally, has strong correlation with the fact that just like this project is unfinished externally (not all countries joined), it is unfinished internally as well (Economic part of the EMU was unfinished, which led to its crisis).

The example of the EMU also illustrates another point of concern, which is that instead of creating new differentiated integration projects, we should first try to abide by the rules already in place. The multispeed integration projects will not serve its purpose of being good, functional examples of close integration that everyone will eventually want to join unless they will actually be functional. If situations such as systematic ignorance of the Stability and Growth Pact in the years before the Sovereign

¹⁶ Standard Eurobarometer 89, Spring 2018, First results. <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/ResultDoc/download/DocumentKy/83548> (Access 11.11.2018)

¹⁷ Standard Eurobarometer 89, Report, Public opinion in the European Union. <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/ResultDoc/download/DocumentKy/83546> (Access 11.11.2018)



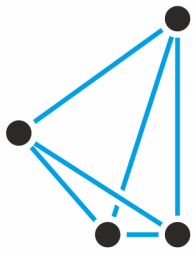
Debt Crisis¹⁸ will repeat, the consequences will be further fragmentation and unwillingness to join..

It is now clear that the EMU needs to be strengthened and that reforms are needed to finish it internally, so that it can create a natural pull-effect on the EU countries outside of the Monetary union. These reforms, however, must be conducted in a way which will not undermine the inclusiveness of the process. In reforming the EMU, the concerns that apply for any multispeed project are relevant. First of all, the countries that are not included in the fast-moving club from the beginning may fear being excluded from the negotiating table when these policies will be created, thus not having a say and vote in their creation and therefore decreasing the possible ownership of these policies. Furthermore, due to not being present and active in shaping these policies, they might be created in a way that will objectively not reflect their national interests and therefore discourage them from joining. This in theory decreases the democratic nature of the process of integration and strengthens the perceptions of democratic deficit in the Union. It is especially important not to undermine the perception of the European Institutions as effective and democratic, if it is true that the willingness of member states to delegate more authority and sovereignty to the EU is at least in part decided by their populace and elites' tendency to trust them (sometimes more than their own governments).

Therefore, any multispeed project, starting with next reforms of EMU, should follow several principles to increase the chances of the project to be successful:

- 1) **Non-discrimination** of the Member States that will decide to stay out of faster integration project. There should not be feelings of "good" or "bad" Europeans based on the level of commitment to closer and faster integration.
- 2) **No blocking** of the project of the more committed states by the states that do not wish to move faster. This is the opposite side of the same coin in regards to point 1. I.e. countries which are not members of the Eurozone yet should not block the discussions on its deepening, the creation of EDIS or EMF.
- 3) Permeability or **inclusiveness** meaning any Member State can join the project at any time.
- 4) Member states that decide to move faster should be truly committed and once they start the project, stick to it with the rest of the countries. Case-by-case approach of opt-ins and opt-outs policy is **undesirable cherry-picking**.
- 5) **Full transparency** between the member states inside and outside of the faster integration project.

¹⁸ How the Euro Zone Ignored Its Own Rules. In: *Spiegel Online*, 6. 10. 2011. <http://www.spiegel.de/international/europe/the-ticking-euro-bomb-how-the-euro-zone-ignored-its-own-rules-a-790333.html> (Access 18.12.2018)



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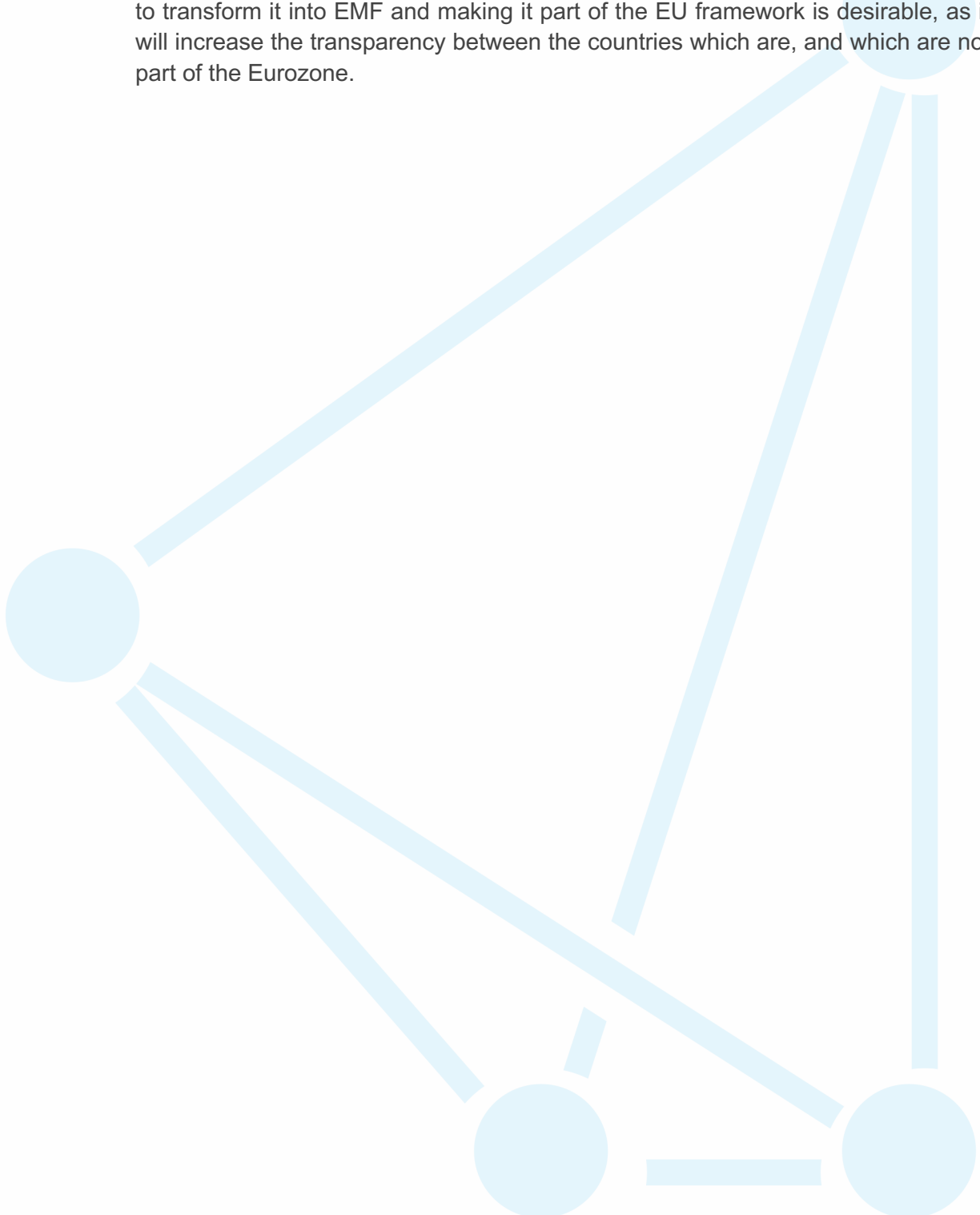
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- 6) Fast-moving projects should **use the existing EU institutional framework** for all the integration. In this light, creation of ESM on purely intergovernmental level, outside of the EU framework, was not a good step. On the other hand the proposal to transform it into EMF and making it part of the EU framework is desirable, as it will increase the transparency between the countries which are, and which are not part of the Eurozone.



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