FIVE PRESIDENTS REPORT REVIEW

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- European Commission President Juncker, in collaboration with the presidents of the Euro Summit, the Eurogroup, the European Central Bank and the European Parliament, has published the "Five-Presidents Report."

The aim of the "Five Presidents Report" is to prepare a roadmap for the completion of the EMU, a plan involving tighter control from Brussels while stressing that completion of the financial union is a foremost "means to create a better life for all citizens."[1] This brief aims to discuss some of its key elements.

The Eurozone in its current institutional setup is in need of reform to ensure its long-term survival and sustainability.[2] The Five-Presidents Report seeks to herald such reform. It contains four sections devoted to economic, financial, fiscal, and political union respectively in an overarching attempt to complete the EMU, deepening economic integration and strengthening economic policy coordination within the Eurozone. Each of these unions is divided into two stages. The first to be completed by June 2017 and the second by 2025.

The **economic union** concerns the co-ordination and implementation of economic policies such as labour market reforms, and aims to foster structural convergence among Eurozone countries towards common standards. The report stresses that the notion of convergence between the member states is at the heart of the economic union and necessary to ensure prosperity, while convergence within European societies is essential to nurturing the "unique European model." To strengthen convergence, jobs and growth it plans to introduce four pillars:

1) **The creation of a euro area system of Competitiveness Authorities**, a body tracking performance and policies in the field of competitiveness to broaden and substantiate the efforts already undertaken in this field by the European Semester and MIP (Macroeconimic Imbalance Procedure). This system is also intended to monitor wage developments.
2) **Strengthened implementation of the Macroeconomic Imbalance Procedure** to improve awareness of and cope with imbalances for the euro area as whole rather than just individual countries.
3) **Greater focus on employment and social performance**, intended to strengthen labour markets and improve their efficiency, promote a high level of employment in all age groups and labour markets that are able to absorb shocks without subsequent

1 Five Presidents' Report, p. 2
2 Centre for European Reform, *The eurozone's 'five presidents' report': An assessment.*

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excessive unemployment. This becomes even more relevant given the unfavourable demographic development across Europe, as the report notes, making it increasingly important to ensure high employment amongst older segments of the population.

4) **Stronger coordination of economic policies within the revamped European Semester.** In line with the renewed convergence process, the annual cycle of the European Semester should be tied together with a stronger multi-annual approach while cutting down on the multiple packs, pacts and procedures that have arguably blurred its efficiency.

Complementing the economic union, **the financial union** aims at fostering cohesion within the financial system to truly achieve a uniform monetary union. Without a truly single financial system, impulses from monetary decisions, such as changes in interest rates, are not transmitted uniformly throughout the Eurozone. This can result in potentially aggravating economic divergence during economic crises as was the case during the most recent economic recession. The recession exhibited all too well the vulnerability of the link between sovereign and bank risks.[3] Thus, a cornerstone of the financial union is the completion of the banking union, aiming to set a common backstop to the Single Resolution Fund.

While striving to setup a truly single financial and banking system, the financial union must be able to diversify risk across countries to mitigate the dangers of country-specific shocks.[4] Diversifying bank portfolios and capital markets across the Eurozone should help cushion against such future economic shocks. As envisioned in the report, accomplishing this deepening integration will likely necessitate relinquishment of sovereignty in some form, a difficult prospect mainly due to the level of Euroscepticism, especially in some of the Northern and Western European countries. These countries will, in all likelihood, balk at the prospect of being even more deeply integrated with weaker, more fragile and volatile economies.

The fiscal union focuses on strengthening and streamlining the current rule-based setup and avoiding pro-cyclical fiscal policies. The crisis has shown that individual responsible national fiscal policies that are counter-cyclical are essential to avoiding financial instability within the Eurozone on an overarching level as unsustainable fiscal policies create contagion between member states and financial fragmentation. The report, first and foremost, stresses the need to reinforce trust in the common EU fiscal governance framework, followed by the creation of a 'fiscal stabilization function' at the Eurozone level in the second stage, which intends to tie European investments to the business cycle.[5]

Lastly, **the political union** seeks to "*better integrate the European semester (the coordination of economic policies) into national and European democratic processes.*"[6] This involves consolidating and unifying the external representation of the euro as the EMU evolves towards economic, financial and fiscal union. From the perspective of the EU, concrete steps are finally taken to imbue the EU with one voice in international financial institutions such as the IMF. Additionally, the revamping of the European Semester into two stages, one devoted to the Euro area and one to a country-specific national level, will contribute to greater integration between the EU and nations within the European Semester, and align well with the report's objective of integrating the European Semester into national and European democratic processes.[7] Hopefully this heightened democratic integration can contribute to decreasing perceptions of democratic deficit.

Although the report is likely to include elements that will appeal to the various parties affected by it, the emphasis on convergence, while positive, is

3 Bruegel, Hazardous tango: sovereign-bank interdependence and financial stability in the euro area, pp. 2-3
4 Five Presidents' Report, p. 11
5 Five Presidents' Report, p. 14
6 Centre for European Reform, *The eurozone's 'five presidents' report': An assessment.*
7 Five Presidents' Report, p. 22

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not likely to be unanimously welcomed. Europe's economic powerhouse, Germany, will be called upon to adjust its economy and to de-emphasize its current strengths, such as relatively cheap labour and an economy oriented towards production rather than services, in order to avoid exacerbating the existing divergence within the Eurozone. This will potentially increase wage levels in Germany for particularly low-income workers which will raise production costs.

Despite the potential misgivings of some member states at this prospect, converging states' economies in areas such as wages, taxation and pensions rather than diverging is vital to reduce the fundamental economic imbalances that contributed to the economic crisis. Thus, calls for adjustments in order to increase stability through convergence might potentially come at the expense of national economic growth, such as the above stated example of Germany, which will be a hard sell in most countries. However, it is vital that such adjustments are made nonetheless. To use the case of Germany once again, adjustments would enable poorer and weaker Eurozone economies to strengthen their economies since they could focus on production and manufacturing if Germany naturally transitioned to a more service-oriented sector economy and with increased productivity thereof. For Germany itself, it would help mitigate the rise of the number of people belonging to the so-called "working-poor". However, in the past Germany has been wary of such adjustments, making convergence difficult.[8]

For all its emphasis on convergence, the report mentions no concrete proposals of a social character, which has already been criticized by the European Trade Union Confederation.[9] In stark contrast to the report's stated aims of fostering social cohesion and a "means of creating a better life for all citizens", the absence of concrete proposals to tackle social dumping, tax avoidance by multinationals and zero hour contracts is regrettable.[10] These issues are not inconsequential, particularly given the current structural divergence within the Eurozone, and tackling them would align with the overarching goals of the report. Their omission is thus lamentable.

Granted, the primary goal of the report is to provide a remedial blueprint for the main shortcomings of the Eurozone architecture and fortify it against future crises comparable to the most recent economic crisis. However, the public relations dimension cannot be ignored if the report is to resonate with the wider public to whom these complicated issues might become relevant. The report itself states that democratic accountability and legitimacy are of utmost concern, given that the deepening of integration could potentially lead to relinquishing sovereignty in some shape or form. Therefore, the absence of concrete social initiatives casts doubts on the implementation of the plan in its current format. The public relations dimension or lack thereof, is partially responsible for the recent influx of Euroscepticism in countries such as Denmark, Sweden and the Netherlands. Ignorance of this issue may prove a substantial obstacle to its eventual implementation, further establishing a "two-speed" Europe rather than the vaunted cohesion.

Criticism aside, it is a strategically sound choice to narrow the focus of the report to the aforementioned initiatives rather than making it all-encompassing and thereby risk stranding it due to being overly ambitious. Despite the aforementioned social issues and PR dimension being pertinent and potentially obtrusive to implementing it in its current iteration, ensuring the stability of the Eurozone and financial markets will create a more conducive environment to tackling these challenges subsequently.[11]

Ultimately, the Five Presidents' report is an attempt to focus the discussion on the institutional setup needed to make the euro more successful. The notion of convergence has, since the signing of the Maastricht Treaty, featured prominently in discussion on how to ensure the financial stability of

8 EurActiv, *EU's 'Five Presidents' lay out eurozone vision, with timetable.*
9 Ibid.
10 Ibid.

11 Bruegel, *Euro area governance: an assessment of the "five presidents" report. Positive and missing or negative elements*

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the Eurozone, and it is positive that tangible steps are now being taken to institutionalize convergence on a more structural level. Hopefully, the plan will not be obstructed by the increasingly limited political appetite for further integration in some countries. For instance, the recent elections in Denmark and the UK have put in power political forces which are generally, though not unequivocally, against deepening integration. Thus, it might necessitate emphasizing particular aspects of the report over others, should it prove impossible to implement in its entirety. Should this be the case, the author agrees with the Centre for European Reform's recommendations on which reforms to focus on: the completion of the banking and capital markets unions, to make the ECB a more activist central bank, and to create a national fiscal policy strongly counter-cyclical to combat eventual setback to the fragile recovery after the recession. [12] These are essential in making the EMU resilient against future economic shocks and to galvanize the fragile economic recovery. In the long run, such reforms would also contribute to solving the structural (youth) unemployment in countries such as Spain and Italy.

Whether it will succeed or not remains to be seen after the German and French elections in 2017. For now, the preparatory works have begun setting up the concrete steps of the two-stage plan. Regardless, Jean Claude Juncker will have his work cut out for him as the attempt to focus on institutional reforms needed to make the euro successful will be a monumental task.

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European Commission with the support of the European Union:
Support for organisations active at European level in the field of active European Citizenship

12 Centre for European Reform, *The eurozone's 'five presidents' report': An assessment.*

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