EUROPOLITICS

Economic and Monetary Union

Commission issues two EMU communications to gauge temperature

By Gaspard Sebag | Wednesday 20 March 2013

The Economic and Monetary Union 2.0 is not quite warm enough of a pool for the Commission to jump in with new legislative proposals. Instead, on 20 March, the EU executive issued two communications – to gauge the temperature in member states – on the ex ante coordination of major national economic reforms that have spill-over effects and another on contracts to undertake structural reforms potentially assorted with financial incentive. Concerning the former, the Commission narrows the reforms that would be concerned. This includes tax systems. Legislative proposals should be forthcoming before the end of the year.

The December 2012 European Council tasked its President, Herman Van Rompuy, to present at the June EU summit "possible measures and a time-bound road map" to boost the EMU. The Commission's twin communications aim at laying the groundwork. They flesh out further ideas that were already put forward in the EU executive's EMU blueprint, released in November 2012. Member states showed little political appetite to venture along that path during discussions held at technical and political level.

COORDINATION OF TAX SYSTEMS

The aim of an ex ante coordination of major national economic reforms is to "maximise positive spillovers and minimise negative ones," ie sharing best practices and preventing those deemed damaging. This would concern first and foremost the eurozone. The big question is: which reforms should be concerned. The communication says that "the Commission is considering proposing that the reforms to be coordinated should focus on competitiveness, employment, the functioning of product and services markets, network industries, tax systems, financial stability and fiscal sustainability". With taxation considered a key aspect of national sovereignty, it seems hard to imagine member states would accept EU coordination. "I'm not sure [the Commission] will get a lot of traction on that one," says a diplomatic source.

The discussion of the reforms would be anchored in the 'European semester' process, which already aims at coordinating national economic, fiscal and employment policies through country-specific recommendations from the Commission. The Commission would assess the national reform plans and deliver an opinion on them. These plans would then be discussed by the Council and the Eurogroup. Suggestions would be made for changes if necessary.

In addition, to encourage certain structural reforms to boost competitiveness in member states, the Commission will also elaborate on a 'carrot and stick' mechanism baptised the Convergence and Competitiveness Instrument (CCI). This is the object of the second communication. The gist of this is for member states to enter into contractual arrangements assorted with potential financial incentives in case of negative short-term effects (to nudge them the right way).

Basically this means giving more teeth to ‘European semester’ recommendations with member states actually commiting to certain reforms and to a timeline to implement them. The contract would be signed by the country concerned after negotiations with the Commission and would be green-lighted by the Council after discussions and possible amendments. “The ambitious and timely implementation of structural reforms will go a long way to addressing key weaknesses in the economy, especially in those areas related to competitiveness,” notes the Commission.

The Commission indicates it will also examine ways for member states that are not part of the eurozone, and in particular those preparing for euro accession, to enter into a contractual arrangement.

For the financial incentives a financial instrument of “a limited quantity” could be created, in principle within the EU budget but outside the ceilings set in the multiannual financial framework (MFF). Funding would probably be dependent on each country’s wealth. In case of non-compliance with the contract, financial support could be suspended or, where necessary, recovered. In case the incentive instrument yields convincing results it would be expanded as it is meant to be the first step towards a subsequent stronger fiscal capacity.

If legislative proposals come out after the summer it seems improbable that they could be agreed to by the legislators before the end of this legislature in mid-2014.