Political Union – a European dream?

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1. Introduction

Everyone is well aware about the difficulties and challenges our Monetary Union is facing since the outbreak of the financial and economic crisis in 2008. All agree that the Euro Area is not an optimal currency zone and the rules created to stabilise the one and the expected market mechanism have not been able to avoid the current crisis. Neither the Maastricht Criteria nor the Stability and Growth Pact have prevented increasing imbalances within the Euro zone. Furthermore, markets did not send the needed signals in time when countries lost competitiveness or deficit and debt levels went too high.

All these shortcomings together led to enormous imbalances between members of the Monetary Union, unsustainable levels of private and public debts and an extremely vulnerably banking system. There is a lot of discussion these days, if an Economic, a Banking and a Fiscal Union are needed to secure and stabilise our Monetary Union.

Such a move means further steps towards a Political Union – the subject of our panel today – including the transfers of competences, of sovereignty to the European Union or the Euro-zone.

However, the real question is, how realistic is any development towards a Political Union under the current political circumstances? It is not a surprise that with growing anti-European resentments and nationalism at the right and left end of the political spectrum a transfer of power from capital to Europe seems not very realistic.

Does this mean we are blocked in a stalemate with no hope to improve? Or do we need to wait for a next existential crisis to get the chance to move forwards?

Both is not the case. We have to think about solving our current and previously mentioned problems within the existing constitutional framework.

2. Improving the Economic Union via productivity partnerships

As regards an Economic Union economic imbalances and the loss of competitiveness can only be corrected by national governments and social partners. It is about improving productivity and it is about ensuring wage developments in line with productivity. It is not realistic to transfer such competences at a supranational level.

Therefore, the aim must be to focus national policy agendas and to support their delivery. The recently adopted recommendation to create “Productivity Boards” – which should deal with the competitiveness situation and should allow better informed decisions about wage developments – can contribute to it. Employers could engage with Trade Unions in so-called productivity partnerships to discuss a joint way forwards to increase productivity and competitiveness and with this to create the conditions for investments, growth, jobs and welfare.

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3. Implementation of structural reforms through involvement of social partners

We observe a similar situation regarding structural reforms when we look at the low degree of implementation of the jointly agreed Country Specific Recommendations in the framework of the European Semester. Too often needed reforms in all areas are blocked by incumbents and other form of wasted interest. A Political Union will not change that much, because most of these reforms will stay in national competences.

To actually achieve the necessary reforms, the European Commission and the national governments should better involve social partners and other relevant stakeholders in the design and implementation of reform programmes.

4. Fiscal policy and support for investments

Undoubtedly Europe has to do more to tackle its investment gap. The low investment activity is not only the main reason for the low dynamic in recovery, but also reduces the path for potential growth and welfare in future. There is no doubt that Europe needs more private and public investment.

Was does this mean for fiscal policy? Countries which have enough room for additional investments should be encouraged to make use of their possibilities, while those whose budgets are tighter could review their expenditure and their revenues structure to make them more investment and growth-friendly.

In addition to that, UEAPME fully supports a flexible interpretation and use of the current Stability and Growth Pact to give more leeway to Member States which want to invest in future productivity and growth and to those who want to frontload important structural reforms.

5. A potential fiscal capacity for the Monetary Union

There is a broad consensus that a Monetary Union, which is as heterogeneous as the European Monetary Union, needs some kind of fiscal solidarity to react on external asymmetric shocks.

UEAPME agrees with such an approach, but any such mechanism has to be designed in a way that excludes moral hazard. This means, for example, that financial solidarity has to be conditional to an implementation of jointly agreed reforms like the Country Specific Recommendations.

The question is, do we therefore need a joint fiscal capacity, or can it be provided within the existing intergovernmental structures, at least as long no common fiscal capacity exists.

6. Conclusion

Needed reforms and steps forward can be made within the current treaty framework and there is no necessary reason that the future of the Monetary Union can only be ensured with a Political Union.

Let us do the necessary and not use unfeasible dreams about a Political Union as an excuse for doing nothing!