Strengthening and deepening the Economic and Monetary Union within the current Treaties: possibilities and limits

25 proposals

SUMMARY

This policy brief analyses the possibilities that the Treaty of Lisbon offers in order to deepen and strengthen the Economic and Monetary Union and improve its democratic legitimacy and effectiveness. The democratic legitimacy of the EMU could be strengthened by a significant involvement of the European Parliament in the economic policy-making process, by a better division between the executive and legislative powers, and by the creation of an EMU Committee or Super-Committee within the European Parliament. The basis of a future economic and fiscal government of the euro area could be created by concentrating key prerogatives and capabilities on these matters and by merging the positions of President of the Eurogroup and Vice-President of the Commission into a de facto “EMU Finance Minister” responsible for the development and implementation of EMU economic and fiscal policy and democratically controlled and sanctioned by the European Parliament. An own budget for the Eurozone would allow the implementation of macroeconomic convergence and investment policies aimed at improving growth in the Euro area and increasing its resilience.

If the measures proposed here were implemented (and particularly if they were implemented as a package, or within a single roadmap), they could constitute a considerable improvement in the functioning of the EMU. While potentialities exist à traité constant, rallying the necessary political consensus among Member States (especially for the many measures that can only be implemented by unanimity of the Member States) represents a major challenge.

On the other hand, the limitations provided by the Treaties are also very clear. The potential degree of financial autonomy of the Union or the EMU is restricted by their lack of powers for tax collection or for issuance of sovereign debt and their limited spending powers. The inexistence of European political accountability when it comes to policies decided through the intergovernmental method is the major obstacle to democracy, effectiveness and enforceability. Sooner rather than later the Treaties would need to be revised to reach a definitive settlement in these areas and secure a sustainable future for the EMU.

RECOMMENDATIONS

- Create a fiscal capacity / budget for the EMU integrated in the EU institutional framework
- Fully involve the European Parliament in key stages of EMU governance and create an EMU Committee or Super-Committee in the EP
- Merge the positions of President of the Eurogroup and Vice-President of the Commission creating a de facto “EMU Finance Minister”
- Revise the system of own resources of the EU or create an own resource system for the EMU
- Establish instruments for a Single Economic and Fiscal Policy for the EMU
INTRODUCTION

This policy brief constitutes the first part of the contribution to the debate on the report on “Improving the functioning of the European Union building on the potential of the Lisbon Treaty” being prepared by the Committee on Constitutional Affairs of the European Parliament with co-rapporteurs Elmar Brok and Mercedes Bresso. This first policy brief addresses the possibilities of and limits to substantially improving the Economic and Monetary Union (EMU) within the framework of the current Treaties and puts forward 25 specific proposals in this respect.

The financial and debt crises that have affected the European Union, and particularly the euro area, for the last seven years have led to substantial improvements in the way the Economic and Monetary Union works, through the creation of new institutions (such as the European Stability Mechanism for providing financial support to euro countries facing particular financial difficulties), the establishment of new European supervisory authorities (particularly the Single Supervisory Mechanism for the banking sector) and a new framework for the coordination of national fiscal and economic policies of the euro countries through the so-called European semester.

However, the urgency with which decisions were made and the lack of sufficient political will for a more ambitious project prevented three structural issues at the basis of the weakness of the Economic and Monetary Union from being addressed: (1) while monetary policy is European, fiscal and economic policies remain national. Today’s governance framework reflects a “rule-based approach” and tries to coordinate national economic policies through a combination of surveillance, monitoring, recommendations and incentive instruments put under the umbrella of the European Semester, but it lacks the ultimate power of enforcing policies aiming at the convergence of national fiscal and economic policies; (2) the euro area lacks the tools, powers and resources for implementing effective economic policies at the European level (particularly to complement the necessary national structural reforms ongoing in many euro countries with anti-cyclical European policies); (3) the increased powers of the European level have not being accompanied by an increased democratic legitimacy of the decision-making processes, leading to increasing tensions between the European rules and the national democratic processes and a widespread perception of a lack of legitimacy of the system put in place in recent years.

Ultimately, all three issues need to be addressed to ensure a sustainable Economic and Monetary Union. A satisfactory solution to these issues will ultimately require a change to the European Union Treaties (or one or more additional treaties on the model of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the so-called Fiscal Compact). However, with the required political will and consensus among Member States, substantial improvements could be made even without changes to the current Treaties. This paper provides 25 proposals in this respect. Each of the following proposals could be implemented on a stand-alone basis. Nevertheless, the interrelations between many of the proposals is such that their implementation would be much more effective (and able to achieve the goal of a substantially improved Economic and Monetary Union) if they were adopted as a package, or within a single roadmap to be implemented within a short-period of time in the near future.
Each section of this policy brief deals with a specific dimension of the EMU governance framework: its government structure, its financial capability, its financing and, finally, the nature and scope of its policies.

Annex 1 clarifies which proposals could be implemented through the Ordinary Legislative Procedure (i.e. co-decision and qualified majority voting in the Council) and which ones through the Special Legislative Procedure (i.e. requiring unanimity of Member States) or through the adoption of other legal instruments. As will be shown, the most critical measures put forward here do require unanimity of Member States and therefore can be expected to face significant challenges to their adoption and implementation. Annex 1 also indicates when changes to the Treaties (or an additional treaty for the euro countries) would be required for a final settlement or full deployment of the euro area’s potential in the subject of the proposal.

1. STRENGTHENING THE EMU GOVERNANCE FRAMEWORK

1.1 INCREASING DEMOCRATIC LEGITIMACY IN THE EMU GOVERNANCE FRAMEWORK

The strengthening of the EMU governance framework that has occurred since 2010 has entailed considerable institutional and democratic consequences for the Union and the euro countries. First, national parliaments (and in fact national governments) have lost a substantial portion of their budgetary powers as they need to act within the framework of European rules and the limitations that may be imposed by the Union when they define their economic priorities and adopt their positions on national budgets. Yet, apart from the theoretical leverage they enjoy in the framework of the subsidiarity control, they lack means of control and influence on the EMU decision-making processes.

The misalignment between a supranational monetary union and a still intergovernmental system of coordination of national economic policies prevents national parliaments from exercising their control powers on their governments and from having an impact on the final result of negotiation processes between Member States, which are based on the inequality of the bargaining power of each government. The decrease in national parliaments’ powers has not been compensated for at European level, which undermines the so-called input legitimacy of the new EMU governance framework.

At the European level, the concentration of political decision powers regarding the EMU in the European Council (then formalised by national ministers in the Council) with no or very limited involvement of the European Parliament has led to the emergence of the European Council as a quasi-executive body. Given that the European Council is not designed to make decisions on binding acts, the Treaties do not provide any system of

“THE INTERGOVERNMENTAL METHOD HAS PROVEN INEFFECTIVE FOR THE ADOPTION OF BINDING DECISIONS IN ALL THE POLICY FIELDS WHERE IT HAS BEEN USED, AND THE EMU IS PROVING TO BE NO EXCEPTION.”
control of its activity by the European Parliament. The intergovernmental method has proven ineffective for the adoption of binding decisions in all the policy fields where it has been used, and the EMU is proving to be no exception. In addition, the lack of parliamentary backing leaves the EU short of means to diffuse increasing tensions with national democratic processes and constituencies.

Last but not least, the abnormal role given to the European Council allows the Member States to decide on the final implementation of decisions made in the framework of the European Semester. Over the last years, the widespread lack of application of the Country-Specific Recommendations (CSR) and the increased flexibility granted to some Member States in the application of the budgetary rules has proven the inefficiency of this method. This will eventually undermine the same basis of the system by removing all the credibility from the commitments acquired under the Stability and Growth Pact (SGP) and the Treaty on Stability, Cooperation and Governance (TSCG).

The current EMU governance framework is characterised by other fundamental contradictions that undermine the effectiveness of the system. As mentioned above, executive power is shared between the Commission, the Council (ECOFIN Council and the Eurogroup) and the European Council. Yet the Council preserves its role as legislator. This system splits the political responsibility between the Commission and the Member States. Whereas Member States are theoretically responsible in front of their respective constituencies, in practice, none of them has the means to change the direction of European economic policy individually. At the same time, the European Parliament has not been conferred any power of control over the actions undertaken in this field. As a result, political responsibility is completely blurred, and, in practice, decisions are impossible to enforce and a power of sanction cannot be exercised.

Such a great extension of powers created at the European level (which prospectively are not unlikely to be increased) requires a matching extension of democratic checks and balances, clearer lines between the executive power and the representative institutions of the Union, and specific democratic legitimacy of decisions affecting only the euro area.

The balance between the executive and the legislative powers also raises the question of whether parliamentary control can be exercised by the European Parliament as a whole – considering the involvement of non-euro country Members of the European Parliament (MEPs) in EMU matters. As many propose, one solution to this could be the creation of a new parliament for the euro area, in spite of the effects it could have on the EU institutions. Alternatively, solutions could be sought in order to allow more flexibility in the configuration and way of working of the European Parliament when it comes to the EMU.

Without changes to the Treaties, the legal nature of the instruments used in order to set up the European Semester (7 regulations and 1 directive adopted according to the ordinary legislative procedure) would allow some of its functions to be reallocated among the EU Institutions with a view to increasing democratic legitimacy.

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1 See, for instance, statement by Mr Wolfgang Schäuble, German Finance Minister reported by Reuters (retrieved on 01/10/2014 http://uk.reuters.com/article/2014/01/27/uk-germany-eurozone-parliament-idUKBREAQ1NP20140127) or the positions expressed in the Groupe Eiffel’s manifesto (retrieved on 10/01/2015 http://www.groupe-eiffel.eu/pour-une-communaute-politique-de-leuro/).
**PROPOSAL 1.**

Involving the European Parliament in the key stages of the European Semester, in particular in the adoption of Country-Specific Recommendations (CSRs), Economic Partnership Programmes (EPPs), Corrective Action Plans (CAPs) and sanctions.

Given that the role of the European Parliament in such framework would constitute a function of control of the executive power, and not a real legislative function, the European Parliament should be given the possibility to express its disagreement through a motion adopted by simple majority. Such a motion would stop the process and require that the Commission present a modified draft of the concerned document. Eventually this motion should be adopted between mid-May and mid-June, i.e. before the adoption of the CSRs and the EPPs by the Council.

**IMPLEMENTATION:**
This would require the revision of, inter alia, the following provisions:
- Art. 3 Regulation (EU) No 1467/97 (Adoption of CSRs)
- Art. 10 Regulation (EU) 1176/2011 (Adoption of EPPs and CAPs)
- Art. 9 Regulation (EU) 473/2011 (Adoption of EPPs and CAPs)
- Art. 3 Regulation (EU) 1174/2011 (Adoption of sanctions)

The same effects could be reached through an interinstitutional agreement between the European Parliament, the Commission and the Council.

**PROPOSAL 2.**

Providing the European Parliament with the possibility of adopting Alert Mechanism Reports (AMR) through the European Semester.

**IMPLEMENTATION:** This would require the revision of, inter alia:
- Art. 6 Regulation (EU) 1176/2011

**PROPOSAL 3.**

Conferring to the European Parliament the right to require a hearing of the Head of the Government or one of the ministers of the Member State concerned by CSRs, EPPs, CAPs, sanctions or AMRs before vote.

**IMPLEMENTATION:** Although the mechanism of the Exchanges of Views with national governments already exists, all the “economic dialogue” clauses of the Six-pack and the Two-pack could be revised in order to use a more prescriptive wording.

In order to upgrade the involvement of the European Parliament in the European Semester, it could assume a pivotal role in the negotiations between the Member States and the European level. Exchanges of Views are already done, without much impact. However, if the European Parliament was given a say in the process on a substantially equal footing with the Council and was entitled to ask for modifications in the Commission’s drafts, those hearings could become the centre piece of the budgetary debate at European level. This right could be mutual, i.e. the Government of a Member State concerned by CSR, EPP or AMR could be entitled to ask to be heard by the European Parliament to defend its positions before any decision on CSR, EPP or AMR is made.
PROPOSAL 4.

Creation of a new Committee of the European Parliament on EMU Affairs.
This Committee would be composed only by MEPs elected in euro countries. It would carry out all the preparatory, deliberative and monitoring work currently undertaken by the ECON Committee, but limited to the area of the EMU.

IMPLEMENTATION: Parliament’s vote on a proposal from the Conference of Presidents (according to Rule 196 of the Rules of Procedure (RoP) of the European Parliament)

This Committee on EMU Affairs could work exactly in the same manner as the other committees of the European Parliament. In this case, it would prepare and vote on its reports before passing them for final adoption to the plenary, which also includes all MEPs from non-euro countries. The current Treaties would not allow the European Parliament to legislate in a restricted configuration where only MEPs elected in euro countries would have the right to vote in EMU matters. However, a procedural mechanism could be found to mitigate this problem and obtain similar effects, although it would certainly complicate the work of the Parliament. A definitive and more direct solution would require the revision of the Treaties.

PROPOSAL 5.

Creation of a super-Committee for the euro area regrouping all the MEPs elected in the EMU. This super-Committee would formally be a standing Committee of the European Parliament but entitled to discuss and decide on the transferal to the plenary of reports prepared by the Committee on EMU Affairs (see Proposal 4 above), thus acting de facto as a kind of “Plenary” of the MEPs of the euro countries.

IMPLEMENTATION: Parliament’s vote on a proposal from the Conference of Presidents (according to Rule 196 of the Rules of Procedure (RoP) of the European Parliament) establishing a standing Committee of the EMU composed of all EMU MEPs. In this configuration, the Committee on EMU Affairs presented in Proposal 4 above should become a standing Subcommittee of the euro area Committee. The division of competences between the Committee and the Subcommittee should be clearly defined in the proposals prepared by the Conference of Presidents, with the Subcommittee having a preparatory and advisory role and the Super-Committee a deliberative role prior to the full plenary of the Parliament.

This solution would imply splitting the competences of the Committee on EMU Affairs in two. The Committee would prepare and deliberate on the reports that it intends to forward to the plenary, but it would not vote on them. The transferal to the plenary would be decided instead by the euro area super-Committee comprising all the MEPs elected in euro countries. This would give the necessary legitimacy - with reference to the euro countries - to the texts then adopted by a plenary where non-euro countries are represented, and it could deter non-euro countries’ MEPs from blocking EMU legislation on the grounds of national interest.
Concentrating executive tasks in the Commission by suppressing the role of the Council in the assessment of DBPs and in the monitoring of the implementation of CSRs, EPPs and CAPs.

**IMPLEMENTATION:**
- Modification of Art. 9(6) of Regulation (EU) 473/2013 (monitoring purposes)
- Modification of Art. 7(5) of Regulation (EU) 473/2013 (assessment of DBPs)

Concentrating all technical tasks required in the context of the European Semester in the hands of the European Commission would minimise political interference by Member States in the documents (assessment of DBPs) and actions (monitoring of the implementation of CSRs, EPPs and CAPs) which are later used as a basis for political decisions.

### 1.2 INCREASING POLITICAL ACCOUNTABILITY IN EMU DECISION-MAKING PROCESSES

Experience from the last years has shown that, within the current framework, the more intrusive economic and budgetary decisions made at European level are, the higher the costs are in terms of democratic legitimacy. As has been noted above, because of the largely intergovernmental nature of the European Semester, the political responsibility for EMU policies is widely spread between the Commission, the President of the European Council, the President of the Eurogroup and the Member States.

More concretely, the more intrusive the EU action is (EPPs, sanctions, Excessive Deficit Procedure-EDP), the more likely the European Council is to be called to make ad hoc decisions to conciliate the interests and requests of the different stakeholders and in particular Member States. This role of last-resort decider that the European Council has assumed over the last 6 years contributes to a further blurring of political responsibility. The European Council and its President are unaccountable. Its President is only obliged to present a report to the European Parliament after each European Council (Art. 15(6) TEU) after each Euro Summit (point 5.2.(e) of the Rules of Procedure of Euro Summit meetings), but the European Parliament has no sanction powers that could allow it to control the activity of the European Council. By the same token, it would not be possible to make the President of the European Council responsible for decisions made by Member States, as big as his agenda-setting and policy-shaping powers may be.

Therefore, in order to increase democratic accountability, it is urgent to clearly define responsibilities for decisions on and the conduct of EMU policies. Assigning political responsibility first requires a concentration of decision-making powers and capabilities in the hands of a limited number of positions to prevent the capability-expectation gap from growing further.

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3 Guiding principles for the conduct of proceedings of Euro Summit meetings adopted on 14 March 2013
Specifically, the EMU’s governance system would benefit from concentrating the following prerogatives and capabilities into a single body or position:

- Initiative powers
- Agenda-setting powers at the Council
- Powers of assessment, monitoring and surveillance of the implementation of the European Semester and other EMU policies by Member States
- Direct horizontal coordination (between the Council/Eurogroup, the Commission, the ECB and the Parliament)
- Direct vertical coordination (between the EU and Member States, and between Member States)
- Use of financial instruments (ESM, European Fund for Strategic Investments)
- Use of administrative capabilities (DG ECFIN of the Commission, DG G of the Council Secretariat-General)
- Right to bring actions for annulment to the ECJ in case of misuse of powers by the European Council or other institutions
- Capability to effectively report to the European Parliament
- External representation of the euro in international financial institutions

In the current institutional framework, these powers are split between the Commission, the Council (ECOFIN Council and in fine the Eurogroup) and the President of the Eurogroup as Chair of the Board of Governors of the ESM. Two positions stand out as possible candidates to assume the political responsibility of EMU policies: the President of the Eurogroup and the Vice-President of the Commission (in charge of Economic and Financial Affairs).

The current description of the position of President of the Eurogroup given by Protocol 14 is at the very best succinct. However, art. 137 and 139 TFEU and the actual practice give the President of the Eurogroup the prerogatives belonging to the chair of the Council when it decides on EMU affairs, since, even if the decisions are formally adopted in the ECOFIN configuration (chaired by the rotating presidency), they are made beforehand in the Eurogroup configuration. Therefore, the President of the Eurogroup enjoys great influence in terms of vertical coordination, agenda setting and policy shaping. However, no mechanism of accountability before the European Parliament is provided. Over time, this position has been strengthened informally with functions of information to the European Parliament and external representation of the EMU in its intergovernmental aspects at ministerial level. In addition, an informal agreement between the ESM Board of Governors and the Eurogroup provides that the President of the latter should also be appointed as chair of the ESM Board. The powers and the democratic accountability of the President of the Eurogroup could be strengthened through the following measures:

"THE EMU’S GOVERNANCE SYSTEM WOULD BENEFIT FROM CONCENTRATING THE FOLLOWING PREROGATIVES AND CAPABILITIES INTO A SINGLE BODY OR POSITION."
PROPOSAL 7.
Appointment of a full-time President of the Eurogroup with no national mandate.

Since the establishment of the Eurogroup the position of President has been occupied by a finance minister. However, this is not a requirement provided for by Protocol 14. In a framework where the President of the Eurogroup assumes increasing and time-demanding responsibilities, the role’s effectiveness would obviously significantly increase if the position were permanent and not combined with a national mandate. Moreover, it would ensure a level of neutrality, insulated from the political dynamics of a national constituency. If, in addition, a direct link between the European Parliament and this position were created (for example, by granting the European Parliament the power of dismissal), the President of the Eurogroup would be more likely to make additional efforts to ensure horizontal coordination between the Council and the European Parliament. This would rebalance the powers of the Council in favour of the European Parliament, with a consequent increase in the democratic legitimacy of the decisions made by the Eurogroup.

PROPOSAL 8.
Interinstitutional agreement between the Council (ECOFIN/Eurogroup configuration) and the European Parliament committing the Eurogroup to dismiss its President should the European Parliament adopt a motion to this purpose.

Within the current Treaties, the European Parliament has no powers of supervision or sanction over the activity of the President of the Eurogroup. The power to dismiss the President of the Eurogroup would constitute a way to link the residual intergovernmental dimensions of the decisions made in the framework of the EMU to the European citizens’ constituency.

PROPOSAL 9.
Permanent invitation of the President of the Eurogroup to Euro Summit meetings.

This would follow the other fields of policy combining intergovernmental and community instruments. For example, in the field of external action, the High Representative benefits from a permanent invitation to European Council meetings when matters under her scope of competence are discussed. This reinforces her capacity to ensure the inter-institutional and the vertical coherence of such policies (i.e. between the European Council on the one hand and the Council and the Commission on the other, and between the EU and its Member States).

Regarding the position of the Vice-President of the Commission in charge of Economic and Monetary Affairs, the position’s powers are much wider and more defined than those of the President of the Eurogroup. Collegially with the rest of the Commission, the Vice-President is responsible for most of the executive tasks within the EMU (assessment, surveillance, monitoring, emission of recommendations, etc.) and has the right of initiative. In addition, the Commission’s DG ECFIN implements several financial instruments
and benefits from means of coordination with the financial institutions of the Union (ECB, EIB, EBRD, IFIs) and the European Parliament. However the position does not bear the ultimate responsibility for the most important political decisions, which are reserved for the Eurogroup.

**PROPOSAL 10.**

Merger of the positions of President of the Eurogroup and Vice-President of the Commission (Commissioner for Economic and Fiscal Affairs) based on the HR/VP model, creating a de facto “EMU Finance Minister”.

**IMPLEMENTATION:** A long-lasting settlement would require treaty revision. However, for the duration of one Commission term, this could be implemented through a political arrangement in the form of an interinstitutional agreement between the Council, the Commission and the European Parliament.

Although in legal terms the responsibility for EMU policies could be divided between the President of the Eurogroup and the Vice-President of the Commission in their respective fields of competence, the reality is that the community and the intergovernmental dimensions of EMU governance are so interconnected that no sanction powers could be exercised in such a set up. The merger of these two positions into one single person would overcome this democratic deadlock.

This set up would also allow the European Parliament (and EU citizens at large) to identify the main political responsibility in EMU economic and fiscal policies and to sanction or reward its holder politically. However, the political responsibility of this position could only be effectively engaged if the following proposal were implemented:

**PROPOSAL 10 BIS.**

Proposal 10 bis. Commitment by the President of the Commission to ask for the resignation of the VP for Economic and Fiscal Affairs if the European Parliament votes a motion to dismiss him/her from the position of President of the Eurogroup (as part of the interinstitutional agreement and complementing Proposal 8).

**PROPOSAL 11.**

Merger of the administrative structures under the authority of the VP (DG ECFIN) and the respective services of the Council (DG G).

Two options exist for the **IMPLEMENTATION**:

**PROPOSAL 11. OPTION A.**

Migration of Directorate General G of the Council (or of a considerable part of it) to the Commission under the structure of DG ECFIN.

**PROPOSAL 11. OPTION B.**

Creation of a body regrouping DG ECFIN and DG G (EEAS model).

Both options could be implemented through a Council Decision establishing the EMU Fiscal and Treasury Administration (Based on Art. 352 TFEU).

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Consistency between the intergovernmental and the Community duties of the EMU Finance Minister could be ensured by the merger of the current administrative structures in the Council and the Commission. It is to be noted that the Secretariat for the Eurogroup (the so-called Eurogroup Working Group) is already hosted by the Commission under the administrative authority of the Director-General of DG ECFIN.

2. AN ADDITIONAL BUDGET FOR THE EURO AREA

The euro area represents an imperfect monetary union, with a supranational monetary policy managed by an independent and non-political institution (the European Central Bank) but without a proper European government with the competences, instruments and resources of policy-making at European level. As a result, the euro area currently lacks any policy instrument to address asymmetric shock or give impulse to economic growth, since only monetary policy has been transferred and is exclusively reserved to pursuing price stability.

**PROPOSAL 12.**

Creation of an EMU additional own fiscal capacity (in essence: a euro area budget).

**IMPLEMENTATION:** See options in sections 2.1. and 2.2 below.

The EMU would need a variety of policy instruments to directly support the economy of the euro area and make it more resistant, particularly in case of asymmetric shocks. The idea that the EMU would need its own budget is not new, but it has gained relevance during the last years. An own budget would allow it, first, to deploy instruments designed to reduce the probability of asymmetric shocks by conducting long-term strategies increasing economic convergence, addressing structural flaws and favouring the mobility of the work factor. Even if the coordination of economic policies would primarily be implemented through the adoption of secondary legislation, from a political point of view, the adoption of convergence measures would be much easier if the costs of their implementation were compensated through financial incentives, which could be funded by the EMU’s fiscal capacity. Second, an own budget would enable the EMU to make investments in infrastructure and initiatives aimed at making its economy more integrated, dynamic and attractive by exploiting the synergies of the Single Market. Third, given that the risk of asymmetric shocks cannot be brought to zero, it should also rely on financial instruments to react in a timely fashion to tackle the regional effects of economic shocks before they produce negative externalities.

The creation of a budget for the EMU would certainly have considerable democratic implications. In the previous section, it was argued that a more powerful EMU needs a stronger political structure to legitimise its action. The reverse is also true. Indeed, any political structure deprived of the financial means necessary to implement its decisions and required to live up to its political commitments would be an empty shell:

“THE EMU WOULD NEED A VARIETY OF POLICY INSTRUMENTS TO DIRECTLY SUPPORT THE ECONOMY OF THE EURO AREA AND MAKE IT MORE RESISTANT, PARTICULARLY IN CASE OF ASYMMETRIC SHOCKS.”
as long as the EMU continues to rely on the Member States’ will to finance its policies, the efforts made to increase democratic legitimacy and political accountability would remain a dead letter.

In order to identify the possibilities that exist within the Treaties to establish an EMU own fiscal capacity, it is necessary to study its three dimensions separately. The first dimension consists of the fiscal capacity itself, i.e. the legal and financial structure that would constitute the recipient of the financial resources. This will be the topic of the present section. The next two sections will deal, respectively with its financing, i.e. the fiscal resources used to fill the recipient, and finally with its expenditure, i.e. the policies that could be financed, according to the Treaties, with such a budget.

Regarding the structure of the EMU fiscal capacity, the possibilities that exist within the current treaty framework can be grouped in two categories. The first comprises the ways to create an EMU budget within the EU general budget. The second includes options that would allow the establishment of an EMU budget outside of the EU budget. Both sets of options will be described below.

2.1 EMU FISCAL CAPACITY WITHIN THE EXISTING FINANCIAL FRAMEWORK

The financial framework of the EU must respect the principle of universality of EU expenditure. The space for the creation of a separate budget within the EU financial framework is quite limited, but the Treaties and the financial regulations in force provide for two cases where certain expenditures can or must be financed separately.

**PROPOSAL 12. OPTION A.**

Establishment of an EMU additional fiscal capacity / budget through the creation of a new line in the EU general budget financed with specific earmarked resources.

**IMPLEMENTATION:** Modification of the MFF Council Regulation.

The first option would consist of creating a **new line in the EU general budget** funded with new resources which would be earmarked to finance specific policies. The new resources can take several forms (FTT, a second GNI-based system of national contributions, etc.) but, in any case, they must be additional and cannot replace national contributions to the EU general budget.

**PROPOSAL 12. OPTION B.**

Establishment of an EMU additional fiscal capacity / budget through the creation of an enhanced cooperation scheme.

**IMPLEMENTATION:** Adoption of a Council Decision authorising enhanced cooperation between euro countries for the financing of their mutual obligations.
The second exception to the principle of universality of the EU budget is the expenditure resulting from the implementation of enhanced cooperation. In practice, this method would not be very different from the first, although the expenditure of this new fiscal capacity must comply with the quite restrictive provisions about enhanced cooperation laid down in Title III of Part Six of the TFEU.

These options seem to be preferred both by the Commission and the European Parliament, since they must comply with the principle of unicity of the institutions and the budget of the EU. Thus, the EMU budget could be implemented by the European Commission and managed and supervised by the European Parliament.

However, although these options could constitute a (cosmetic) exception to the principle of unity of the EU budget, this option would face the limits imposed by the adoption mechanism of the Multiannual Financial Framework (MFF). Indeed, it could be seen to violate the principle of ‘no tax without representation’, since non euro countries would have a veto power on the budgetary line.

In addition, the option based on enhanced cooperation presents serious legal and conceptual limitations. First, the method of differentiated integration provided for by enhanced cooperation and by the specific provisions concerning the EMU in the Treaties could turn out to be incompatible. The main reason for this is that the particular nature of the economic and fiscal policies that the EMU would need to finance through this fund could have a considerable impact on the rights and obligations of non-euro Member States according to Single Market law. This would preclude enhanced cooperation, or limit considerably the scope of the policies that could be carried out within its framework.

2.2 EMU FISCAL CAPACITY OUTSIDE OF THE EU FINANCIAL FRAMEWORK

As has been explained above, the exceptions provided by the Treaties regarding the principle of universality of the EU budget are in general questionable and have a reduced scope. However, it has been reaffirmed by the precedent of the European Development Fund (EDF) and the European Court of Justice’s (ECJ) jurisprudence on that matter (particularly in the case C-316/1994, hereafter the EDF Judgement) that Member States enjoy a great degree of flexibility when it comes to financing their commitments taken in fields belonging to the shared competences of the Union.

4 Art. 332 TFEU says: “Expenditure resulting from implementation of enhanced cooperation, other than administrative costs entailed for the institutions, shall be borne by the participating Member States, unless all members of the Council, acting unanimously after consulting the European Parliament, decide otherwise”.


8 The ECJ ruled that given that the EDF was constituted of direct contributions from Member States and that the implementation of the obligations of the Lomé IV Convention belonged to a shared competence, Member States had the freedom to choose the means to fulfil these commitments, (European Court of Justice (ECJ), Judgement in case C-316/1994, European Parliament vs. Council of the European Union, 2 March 1994 (retrieved on 3/12/2014 http://curia.europa.eu/juris/showPdf.jsf?text=&docid=99257&pageindex=0&doclang=EN&mode=html&dir=&occ=first&part=1&cid=121548).
In the case of the EDF, the ECJ recognised that Member States could establish separate funds and use the Union’s institutional structure for their implementation, management and supervision provided that two conditions are respected. First, the fiscal capacity must not be constituted of EU resources (para. 37-38 of the EDF judgement). Second, the policies financed through the separate fiscal capacity must not fall into the scope of the exclusive competences of the EU (para. 35).

**PROPOSAL 12. OPTION C.**

Establishment of an EMU additional fiscal capacity through an internal agreement

**IMPLEMENTATION:** Conclusion of an internal agreement in the framework of the Eurogroup (non-legislative text under EU law)

The EDF was established by an Internal Agreement\(^9\) concluded by the Member States and its functioning is defined by a Council Regulation\(^10\) (Council Decision before 2008) which is renewed every 5 years. On the one hand, the Internal Agreement was adopted by the Member States using the Council as a multilateral forum and not an EU Institution. Therefore, the Internal Agreement is an international legal instrument, not an EU legislative act. However, given that Member States did not commit to any additional obligation than those provided for by the EU Treaties and the Yaoundé and Lomé Conventions signed with ACP countries (already ratified), this internal agreement did not require ratification. The functioning of the EDF, on the other hand, is laid down in a European legislative act adopted through a special legislative procedure (requiring unanimity in the Council and no participation of the European Parliament), making its provisions enforceable under Union law. This regulation provides, for example, that the Commission should be in charge of its implementation.

**PROPOSAL 12. OPTION D.**

Establishment of an EMU additional fiscal capacity / budget through an intergovernmental treaty

**IMPLEMENTATION:** Conclusion of an international treaty in the framework of the Euro Summit

The internal agreement is not the only intergovernmental procedure that can be used in order to create a separate budget to finance European policies. The European Stability Mechanism (ESM) was created by an international treaty, and the judgement of the

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ECJ about its compatibility with the Treaties [Judgement in case C-370/12] helps further clarify the possibilities that Member States have to create separate funds and to involve the EU institutions in their functioning. This judgement confirms the ECJ’s view regarding the Member States’ freedom to choose the means to finance commitments belonging to shared competences. Regarding the new tasks conferred on the EU Institutions by the ESM Treaty, the Court stated:

“[I]t is apparent from the caselaw of the Court that the Member States are entitled, in areas which do not fall under the exclusive competence of the Union, to entrust tasks to the institutions, outside the framework of the Union, such as the task of coordinating a collective action undertaken by the Member States or managing financial assistance [...], provided that those tasks do not alter the essential character of the powers conferred on those institutions by the EU and FEU Treaties.”

That is to say, an intergovernmental treaty can create new duties for the EU Institutions provided they do not entail any power to make decisions of their own and that the activities pursued by the institutions within the intergovernmental treaty only generates commitments for the fund that it creates.

Regarding the jurisdiction of the ECJ itself, the Court refers to article 273 TFEU, which provides that “the Court of Justice shall have jurisdiction in any dispute between Member States which relates to subject matter of the Treaties if the dispute is submitted to it under a special agreement between the parties”. It considers that nothing prevents the Member States from concluding such a special agreement in advance with reference to a class of pre-defined disputes, as was done in the ESM Treaty.

The conclusions drawn from this judgement have important consequences for the assignment of political responsibility in the policies funded through the EMU fiscal capacity. In case of creation of an EMU budget through an intergovernmental fund, the Commission could be conferred the responsibility for the decisions pertaining to economic coordination (shared competence and therefore within the scope of competence of the Commission) and could be vested with the powers of implementation of the EMU budget. However, when contractual arrangements are necessary to provide conditionality in the context of reform programmes to be implemented by Member States under assistance, the Commission could not be held responsible for the adoption of decisions regarding the political conditions imposed on beneficiary countries, given that this is not a competence conferred to the Union by the Treaties. In this specific case, the responsibility would still belong with the Eurogroup as an intergovernmental body and, if so decided, with its President. This again shows that the intergovernmental and community dimensions of the EMU governance are virtually impossible to disentangle without treaty change.

11 European Court of justice (ECJ), Judgement in case C-370/12, Reference for a Preliminary Ruling from the Supreme Court (Ireland) in case Thomas Pringle vs. Government of Ireland, 27 November 2012 (retrieved on 15/01/2015 http://bit.ly/1CJLvRL)

The method just outlined would have two major advantages compared to the establishment of an EMU budget within the existing financial framework. On the one hand, as explained above, it would allow Member States to make an innovative use of the EU Institutions\(^{13}\). This could consist, for example, of providing the ECJ and the European Parliament with the same powers they enjoy under the EU general budget, while making the budgetary debate much easier than under the current financial procedures. On the other hand, it would allow euro countries to make important decisions for the integration of the EMU (increase in EMU budget, EMU own resources, establishment of macroeconomic convergence policies and automatic stabilisers, etc.) without the interference of non-euro Member States.

3. **THE OWN RESOURCES OF THE EU OR THE EMU**

In the last few years the European debate has been inflamed by discussions about the own resources of the EU, particularly due to the difficulties that the juste retour controversy provoked in the adoption of the current MFF in 2012. At that time, a High Level Group on Own Resources (HLGOR) was created in order to start a reflection on how to improve the composition of the revenue of the EU\(^{14}\). The current system of own resources of the EU has been criticised for its lack of simplicity, of transparency, of fairness and of democratic accountability. In addition, the cumbersome decision-making procedure of the Own Resources Decision, requiring unanimity in the Council and the ratification of all national parliaments, has also been identified as a great barrier to a more efficient system. Finally, its composition, consisting mostly of GNI-based contributions from Member States (including the VAT-based own resource), focuses the debate on juste retour claims, instead of real budgetary realms.

\[\text{“INCOME FINANCED MOSTLY BY MEMBER STATE CONTRIBUTIONS WOULD HINDER THE REDISTRIBUTIVE CAPACITY OF THE EMU ECONOMIC AND FISCAL POLICIES”}\]

In the framework of the EMU, the issue of the funding of its own fiscal capacity must be addressed at its very conception, given that the origin and nature of its income would have a direct impact on the policies that would be financed through it and that they will have considerable democratic implications. On the one hand, income financed mostly by Member State contributions would hinder the redistributive capacity of the EMU economic and fiscal policies because of the likelihood of toxic debates between net contributors and net beneficiaries. On the other hand, a mismatch between the level at which European redistributive policies are decided and the one at which taxation policies are defined would blur political responsibility. In such configuration Member States would have the last word with regard to the funding of the policies decided at the EMU level. In addition, that would break the democratic link existing between expenditure at EMU level and the taxation and financial control powers of national parliaments over the expenditures of their State.

\(^{13}\) This innovative use could even include the extension of the Ordinary Legislative Procedure to the adoption of EMU financial regulations, the EMU multiannual financial framework and of the EMU annual budget, as well as to the conduct of the EMU Economic and Fiscal Policies. With regards to this, in the EDF judgement, the ECJ stated: “[n]o provision of the Treaty prevents Member States from using, outside its framework, procedural steps drawing on the rules applicable to Community expenditure” (para. 41).

In the last decade, the European Parliament\(^\text{15}\), the Commission\(^\text{16}\) and the HLGOR have issued several publications addressing a series of goals that the reform of the own resources should attain. These objectives would consist of: (1) reducing the share of GNI-based contributions from Member States; (2) avoiding antagonist debates between net contributors and net beneficiaries; (3) simplifying the decision-making procedures; and (4) creating a more direct financial relationship between the EU and the European citizens.

In order to identify the potentialities existing within the Treaty of Lisbon in order to achieve these goals, it is necessary to split the task into two technical objectives. The first step of the reflection will consist of defining the mechanisms that would allow the EU/EMU revenue to be disconnected from GNI-based national contributions. The second will aim at identifying the possible new own resources that could be assigned to the EU’s or the EMU’s budgets.

### 3.1 Disconnecting Own Resources from GNI-Based National Contributions

As will be explained in Section 3.2., the type of own resources that could be assigned to the EU or the EMU is considerable. Therefore, the greatest challenge when it comes to reforming the system of own resources, or creating one for the EMU, does not consist of identifying new sources of revenue but of finding consensus among Member States on the type and amount of resources and, more fundamentally, on disconnecting such resources from national contributions. As long as these appear in the Member States’ balance sheets as expenses to the profit of the European budgets, the budgetary debate in national parliaments will inevitably remain focussed on the notion of *juste retour*.

**PROPOSAL 13.**

Reforming the system of own resources of the Union in order to disconnect own resources from Member States’ contributions.

**IMPLEMENTATION:** See options below.

**PROPOSAL 13. OPTION A.**

Taking contributions to the EU budget out of the Member States’ national balance sheets, at least for the effects of the European Semester.

**IMPLEMENTATION:** Revision of Council Regulation (EC) No 2223/96 on the European system of national and regional accounts in the Community.

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Within the current Treaties, this issue could be addressed in two different ways. The first would consist simply of taking Member States’ contributions to the EU budget out of their national balance sheets. This measure would be based on the assumption that Member States are acting as agents of the EU when they levy the taxes that constitute the traditional or new own resources of the Union. This would be a cosmetic solution, but it would be likely to soothe debates in national parliaments. However, it could be used by the opponents of European integration, who could interpret it as a new source of opacity in the functioning of the EU.

**PROPOSAL 13. OPTION B.**

Creation of a Generalised Correction Mechanism financed with traditional and new own resources and used to refund the part of each Member State’s contributions exceeding 0.2% of the average contribution-GNI ratio.

**IMPLEMENTATION:** Revision of Council Decision 2014/335/EU (ORD)

The Commission has proposed a simplification of the permanent and temporary national rebates which are used to avoid excessive imbalances between net contributors and net beneficiaries of the EU budget. It proposed to replace it with a generalised Correction Mechanism. However, this proposal was complex to implement, and it left some important unanswered questions like the way corrections would be financed. In addition, it raised concern among some Member States that it would crystallise the juste retour principle as the rule with regards to EU revenue debates.

It could be positive nevertheless to smooth the differences between the contributions of some Member States when they are excessive compared to their prosperity. A Generalised Correction System could be considered, financed with one part of the traditional and new own resources of the Union. It would refund the part of the contributions of a Member State that exceed a proportion of the average contributions of the 28 Member States compared to their GNI. For instance, it could be decided to refund the contributions exceeding the average contribution-GNI ratio by 0.2%. This correction system would still allow the EU budget to play a redistributive role by permitting a significant difference between each Member State’s contributions. In addition, if the corrections were financed with own resources, the position of net beneficiaries would not be eroded as has occurred with the 2004-2007 new Member States compared to the United Kingdom.

However, none of the proposals mentioned above would put a definitive end to the division between net contributors and net beneficiaries. Only the application of the subsidiarity principle to the way taxation powers are distributed in the EU could solve this problem. So far, one of the main principles that have guided the financing of the EU is the respect of the financial sovereignty of national parliaments. This comes from the traditional constitutional doctrine, which considers that the taxation power is an unlimited...
power of the sovereign and that it is disconnected from any obligation of expenditure. However, this definition of taxation power falls short of conceptual tools in a political system where some areas of sovereignty have been pooled and are exercised jointly.

In a political construction like the EU, the principle of ‘no tax without representation’ cannot be interpreted only in the light of the traditional concept of national sovereignty. On the contrary, the provision by the EU of a series of public goods entails the existence of a single European taxation space, over which the European Parliament should be recognised to have exclusive powers of representation (in respect of the principles of subsidiarity and proportionality).

In consequence, only the establishment of a European taxing jurisdiction would demolish the barriers that hinder the redistributive capacity of the European budgets. For this, the EU (as EU or as EMU) would have to be conferred the power of tax collection, which would require the revision of Art. 311 of the TFEU.

3.2 DEVELOPING THE OWN FINANCIAL RESOURCES OF THE EU (AND POTENTIALLY THE EMU)

The share of the so-called Traditional Own Resources in the EU budget, consisting mainly of the revenue from the common customs duties and excises on sugar products, has been dramatically reduced over the last decades. Today it accounts for approximately 12% of the EU budget. The greatest part is currently financed by the VAT-based and the GNI-based contributions, both considered in practice as contributions by Member States.

Several proposals have been made by different EU and national institutions in order to find new own resources for the EU budget. It has to be noted that if a separate budget was created by the EMU, the following considerations would also apply to its own resources.

**PROPOSAL 14.**

Reform of the VAT-based own resource, with the establishment of an EU or EMU rate of 2% maximum applied to the national VAT revenue from all goods and services currently subject to the standard rate.

**IMPLEMENTATION:** Revision of the Council Own Resources Decision (ORD)²⁰

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In 2011 the Commission proposed a deep reform of the VAT-based own resource and the creation of a Financial Transaction Tax (FTT). Currently the VAT-resource tax base is defined according to complex statistic calculations that disconnect it from the real VAT revenue in each Member State and pegs it instead to their GNI. The Commission proposed to replace this source by a proportion of the national revenue from VAT on a tax basis composed of all the goods and services currently subject to the standard rate. This European bracket would be fixed at European level and limited to 2%.

PROPOSAL 15.
Establishment of a European Financial Transaction Tax

IMPLEMENTATION:
– Adoption of the Commission Proposal for a Directive implementing enhanced cooperation in the area of financial transaction tax\(^{21}\), if so decided, as modified in order to assign its revenue to the EMU budget.
– Revision of the ORD

Regarding the second new own resources, the FTT started making its way forward in 2011 with this proposal from the Commission, and appears to have advanced among 11 Member States in the framework of enhanced cooperation in spite of some opposition. However, discussions about its scope (application to operations made by financial institutions based in the participating countries or operating in them) seems to have left it in stalemate.

In addition to the two proposals from the Commission mentioned above, a series of new own resources can be considered and have already been assessed in several instances\(^{22}\).

PROPOSAL 16.
Assignment of one part of the revenue from the European Emission Trading System to the EU or the EMU

IMPLEMENTATION:
– Revision of the ORD

A possible source of revenues could consist of the assignment of one part of the revenue from the European Emission Trading System (ETS) to the EU or the EMU. The transaction costs of the establishment of this new source of revenue would be relatively low since Member States have not benefited from it yet. At the same time, given that the ETS was established through a European Directive, it constitutes a legitimate claim for the EU to have its revenue assigned.

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PROPOSAL 17.
Establishment of a European excise on tobacco and alcohol products

IMPLEMENTATION:
- Revision of the ORD

Another source of revenues could be generated by the establishment of a European excise on tobacco and alcohol products. This tax would have the advantage of benefiting from a high degree of harmonisation between all the EU Member States. It would find a double justification to have a European excise on such products, since it would contribute to the fight against smuggling and to reduce the consumption of these products across the Union.

The EU Corporate Income Tax has also emerged as a possibility in different studies mainly since 2008. It has not been put forward by any of the above mentioned reports because of the complexity of the definition of its base and by the lack of consensus among Member States on its possible implementation. Nevertheless the recent scandals regarding corporate tax evasion within the EU and the evident difficulty of addressing tax evasion by large corporations that benefit from divergent and competing tax regimes in different Member States should push towards a system of corporate taxation based on a common tax rate at EU (or euro area) level and remaining tax competition only on any additional tax bracket.

PROPOSAL 18.
Definition of a European Common Corporate Tax Base


PROPOSAL 19.
Creation of an EU Corporate Income Tax, consisting of a minimum European corporate income tax applicable to the Common Corporate Income Tax Base and including a European bracket to fund the EU/EMU budget

IMPLEMENTATION:
- Revision of the ORD
- [Eventually revision of the Directive on Common Corporate Income Tax Base]

The establishment of this tax would require a two-step approach. In a first stage, it would require the definition of a common corporate income tax base, which in itself would be likely to increase national revenue. This procedure was initiated by the Commission in 2011, but the adoption of its Proposal for Directive is currently blocked at the Council. The establishment of this base would constitute the necessary first step for the creation of a European Corporate Income Tax (known as EUCIT) at a later stage.
This tax system would consist of a minimum taxation rate decided at European level and applicable to the Corporate Income Tax Base in the EU or the EMU. Within this harmonised system, a European bracket could be created, i.e. an adjustable proportion of the common corporate tax rate would be decided at European level and the revenue corresponding to it could constitute a new own resource for the EU or the EMU. As explained above, within the framework of the current Treaties, this revenue could not be collected directly by the EU. Instead it should be transferred by the Member States to the EU or the EMU budget.

**PROPOSAL 20.**

Transfer of a part of the profits generated by the ECB’s financial operations to the European Investment Bank (EIB) in order to reimburse project-bonds and feed European investment funds.

**IMPLEMENTATION:** Amendment of Art. 33.1(a) of the ECB Statute by means of regulation of the Council and the Parliament (ordinary legislative procedure).

**PROPOSAL 21.**

Conversion of a part of the net profits generated by the ECB’s financial operations into a new own resource of the EU or the EMU.

**IMPLEMENTATION:** Amendment of Art. 33.1(a) of the ECB Statute by means of regulation of the Council and the Parliament (ordinary legislative procedure). Modification of the EU’s Own Resource Decision (unanimity and ratification required) or adoption of an EMU Own Resource Decision including this source of revenue.

Finally, according to the Statute of the European System of Central Banks and of the European Central Bank (the Statute), the net profits made by the ECB from its financial operations are distributed among the ECB General Reserve Fund (up to 20%) and national central banks proportionately to their paid-up shares. This distribution of earnings contrasts with other currency unions within established federal states. For example, only 6% of the Federal Reserve’s earnings are paid to stockholders as dividends, while the rest is transferred to the Secretary of the Treasury and used in order to supplement the gold reserve or to reduce the federal debt. This is a system that could be replicated for the ECB and the EMU.

In the EMU, the profits of the ECB could thus be used in two different ways. The first would consist of transferring a part to the EIB in order to repay project-bonds or feed the European Fund for Strategic Investment (EFSI), and thus support the EU’s debt. This would require the modification of Art. 33.1(a) of the Statute, which can be done by means of a regulation adopted according to the ordinary legislative procedure.

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23 Article 33.1(a) of the Statute
24 Article 33.1(b) of the Statute
25 Section 7 of the Federal Reserve Act
27 Art. 40.1. of the Statute
One part of the ECB’s profits could also be transferred to the EU or the EMU budgets as a new own resource. Apart from the modification of Art. 33.1(a) of the Statute, this would need the ORD to be amended if this revenue was to become part of the EU’s own resources. If it were decided to assign this revenue to the EMU instead of the EU, the new EMU Own Resource Decision should have to include it.

**PROPOSAL 22.**

Reduction of collection costs of traditional own resources from 20% to 10%

**IMPLEMENTATION:** Modification of Art. 2(3) of the ORD

The current Own Resources Decision provides for collection costs of 20% of the amount of the traditional own resources. Across the successive MFFs, the proportion of the traditional own resources retained by Member States to cover the expenses generated by their collection has steadily increased from 5% to 25% for the 2007-2013 MFF. The simple reduction of these costs to 10% would increase the share of traditional own resources from 12% to 14% automatically.

**4. SHIFTING EMU POLICIES FROM A RULE-BASED APPROACH TO POSITIVE ECONOMIC AND FISCAL POLICY MAKING**

The recent evolution of the non-monetary policies carried out in the framework of the EMU has remained limited to the realm of economic coordination and, when required, their financing has been ensured in the form of loans (ultimately from Member States), and not actual EU expenditure. In addition, excluding the first stones of the Banking Union, the European Semester is a crisis-driven mechanism (at best activated in the stages immediately preceding a crisis) aimed at the prevention of negative spill-overs between euro countries.

In the short to medium term, the rule-based system of the European Semester constitutes a zero-sum game by design, since it does not provide for any positive effect compared to the situation prior to the implementation of the excessive imbalance procedure. In practice, compared to the moment where the reform programmes are put in place, it could end up being a negative-sum game in the short to medium term. This has had a considerable negative impact not only on the effectiveness of the system but also on the way European citizens perceive the functioning of democracy at the European level\(^{27}\).

\(^{27}\) The above mentioned report prepared by CEPS (see footnote no. 2) highlights increasing dissatisfaction in peripheral euro countries. In 2013, compared to 2010, satisfaction with the way democracy works in the EU has dramatically dropped in Cyprus (-42%), Greece (-44%), Italy (-38%), Portugal (-53%) and Spain (-43%).
The negative impact of the rule-based system could be reversed by a switch to positive policy making in the areas of economy and taxation in the EMU. The establishment of a genuine economic government of the EMU, embodied by the EMU Finance Minister (see Proposal 10 above) and adequately controlled by the European Parliament (Proposals 1 to 4), and the creation of an EMU fiscal capacity to finance its policies (Proposal 12) would lay down the necessary political basis to support a single economic and fiscal policy for the euro area. This new framework could be accompanied by insurance-type macroeconomic stabilisers, which could be used to share the risk and alleviate the effects of asymmetric economic shocks. However, the functions of the EMU budget would be highly dependent on its legal structure and the composition of its revenue.

The following proposals could be introduced gradually in order to move from the current rule-based economic governance system to a system based on political decision-making.

4.1 PROMOTING MACROECONOMIC AND SOCIAL CONVERGENCE WITHIN THE EMU / TOWARDS A SINGLE ECONOMIC AND FISCAL POLICY FOR THE EMU

The existing European economic surveillance framework already provides a basis for economic policy coordination but it does not provide for ex ante coordination mechanisms nor for effective enforcing mechanisms for use on Member States. In many cases, the necessary reforms are not carried out because of the high short-term economic, social and political costs for national governments, even if the long-term benefits could be sizeable. The Single Economic and Fiscal Policy (SEFP) would allow the EMU to go beyond the current Macroeconomic Imbalance Procedure. It would constitute a framework for ex ante coordination of major national economic and structural reforms likely to have positive externalities for the euro area as well as for the identification and implementation of EMU-wide projects to be financed through direct European public investments. In order to be able to promote reforms outside the framework of the corrective arm of the SGP, the SEFP could provide financial assistance to Member States to alleviate short-term costs. The SEFP would thus fully exploit the potential of both articles 136 TFEU and 11 TSCG and the proposal made in the Commission’s Blueprint of a Convergence and Competitiveness Instrument28.

PROPOSAL 23.

Creation of a Single Economic and Fiscal Policy (SEFP) for the EMU, with the following prerogatives:

- **Strategic framework for macroeconomic policy in the EMU** (general strategies, CSR and thematic roadmaps).

- **Implementation of strategic framework** through: 1) coordination of national labour, social and economic policies; 2) establishment of minimum standards in key public policies; 3) provision of incentives/imposition of sanctions; and 4) direct European public investments in projects representing an interest for the entire EMU.

- **Confidence building measures.**

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The SEFP could be articulated around two main operative task clusters: 1) a programmatic cluster, with the formulation of strategies for the creation and financing of European public goods and the promotion of macroeconomic convergence and positive externalities within the euro area; and 2) an implementation stage, with the adoption of secondary legislation translating the above mentioned strategies. It should be complemented by confidence building measures, which would increase transparency and trust between euro countries.

Regarding the first cluster, the EMU should build on the instruments of the European Semester in order to go further in the identification of and joint decision on reforms at national level and policies and projects at European level, particularly specific projects having potential positive spillovers for the euro area. The Strategy for Macroeconomic Convergence in the EMU would provide political guidance for the medium term and would constitute the basis for the SEFP. It would constitute the logical evolution of the ‘broad guidelines’ provided for by article 121(2) TFEU and should be proposed by the Commission and adopted by the European Parliament and the Council as co-legislators. At a second stage, these strategies should be translated into Country-Specific Recommendations when it comes to national reforms and Thematic Roadmaps defining EMU-wide policies and projects.

The implementation of these strategies would comprise the adoption of secondary EU legislation in order to coordinate national policies in the areas of labour market regulation, pensions and taxation and to set minimum standards on key public policies (R&D, transparency and meritocracy in public administration, the fight against tax evasion, etc.). Moreover, it would include direct European investments in order to finance projects benefiting the EMU financed by the European Fund for Strategic Investments (or another similar fund) managed by the EIB, which could be partially guaranteed by the EMU budget. It could also require financial incentives to introduce country-specific reforms inside and outside the corrective arm, and the imposition of sanctions when the Treaties provide for them.

As for the coordination of social and economic policies, the current treaty framework would still contain some room for manoeuvre, but in the medium term the preclusion of harmonisation in the field of social policy could represent a great challenge to the functioning of the SEFP.

Financial support could not be provided outside the framework of a contractual arrangement concluded between the Commission and the Member State concerned.

These contractual arrangements would constitute the underbelly of the SEFP for two reasons. First, as has been highlighted by the European Parliament, the contractual arrangements would share many features with the Memoranda of Understanding (MoU), which paradoxically constitute non-contractual instruments given that they cannot entail sanctions in case of non-compliance. Secondly, the final implementation of the SEFP would eventually depend on the will of national governments, since they are free not to conclude contractual arrangements with the Commission if they do not wish to...

29 Art. 153(2) TFEU (however, this article falls under the scope of application of the Simplified Revision Procedure)

30 Art. 124-125 TFEU, respectively imposing the necessity of “prudential considerations” when financial assistance is given by the Union to a Member State and allowing “mutual financial guarantees for the joint execution of a specific project”.

benefit from financial assistance. Therefore, in the medium term treaty revision would be required in order either to include a new type of enforceable instrument—to be concluded between the Commission and individual Member States, and whose conclusion would be compulsory under certain circumstances—, or to give the EMU institutions direct powers over Member States’ policy measures.

Finally, the SEFP could be used to put measures in place promoting mutual confidence between euro countries. Under the current Treaties, such measures would consist of the standardisation and harmonisation of data collection in all areas of public administration.

### 4.2 SHARING AND ALLEVIATING THE IMPACT OF ASYMMETRIC SHOCKS IN THE EMU / THE NEED FOR AUTOMATIC MACROECONOMIC STABILISERS

Any currency union is exposed to the risk of asymmetric shocks, which are not as such the result of deficient economic and fiscal policies by its constituent members’ governments but from differences in the structures of each Member State’s economy coupled with the loss of monetary sovereignty and the freedom of movement of capitals. The soundness of national finances and the implementation of measures aiming at meeting the conditions of an optimal currency area (e.g. improving the mobility of the work factors) could alleviate the effects of asymmetric shocks by increasing the resilience of the currency union, but such measures will not prevent them from happening.

In order to cope with such asymmetric shocks, mature currency unions within established federal states have put different types of stabilisers in place, which could be taken as a model by the EMU. Stabilisers can be classified in two categories. The first are bailout agreements or other forms of ex post financial support that come into play after crises erupt. This is the type of stabiliser that the EMU has put in place after the outset of the sovereign-debt crisis, but it is based on a rather low level of risk sharing between euro countries. Therefore, the political, economic and social costs generated by the asymmetric shock are concentrated in the State concerned. In contrast, the second type of stabilisers is based on relatively high risk sharing. Thus, the centralised provision of public goods and services (e.g. a common floor for unemployment insurance or common infrastructure investment insulated from potentially pro-cyclical fiscal policies at national level) and counter-cyclical transfer mechanisms require some extent of political union and ex ante fiscal arrangements.

The establishment of an SEFP would pave the way for greater risk sharing in the EMU, given that ex ante coordination of economic policies would generate a framework of shared responsibility. In consequence EMU automatic stabilisers could be conceived as a solidarity mechanism aimed at mitigating the effects of asymmetric shocks that have occurred in spite of the implementation of and compliance with the SEFP.

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PROPOSAL 24.

Creation of a semi-automatic macroeconomic stabiliser, funded by contributions from Member States calculated as a function of their output gap during early- and mid-cycles, and used to finance specific counter-cyclical projects in countries affected by an asymmetric shock.

IMPLEMENTATION: This stabiliser could be funded by a specific line of the EMU fiscal capacity, or, in its absence, a separate line of the EU budget (see limitations of this option in section 2.1). Its financing mechanism should be laid down in the EU/EMU own resource decision and the respective financial regulation. Its payments would require the previous conclusion of a contractual arrangement between the EU and the Member State concerned.

For the last few years several models of automatic stabilisers have been proposed. The Commission’s Blueprint adopts a broad approach to stabilisation, proposing a system that “may encourage fiscal retrenchment during economic booms, while providing additional room for manoeuvre for a supportive fiscal stance in downturns”\(^\text{34}\). Ideally, such a mechanism should work on the basis of a system of automatic contributions/payments as a function of each Member State’s output gap. That is to say, countries with high growth rates should pay a percent of their GDP to the fund, while those experiencing a downturn in their activity should receive a part of this money. This balancing system of contributions and payments should be triggered according to a series of thresholds, without need for political decisions to be made. However, the current Treaties would allow the automatic activation only with respect to contributions. For payments to be activated, a contractual arrangement should be previously concluded. Therefore, even if in this partially automatic setting its potential benefits would remain sizeable, its functioning could be hindered by political interference in the conclusion of the contractual arrangements (see section 4.1 above).

PROPOSAL 25.

Creation of a European Incentive Scheme for Mobility, based on bilateral contracts between the physical beneficiaries and the Commission and providing grants to promote workers’ mobility between EMU countries

IMPLEMENTATION: EU Regulation based on article 46(d) TFEU.

Another proposal present is the European Unemployment Insurance Scheme\(^\text{35}\), already known as the EUIS. All these proposals conclude that the establishment of a genuine EUIS would require treaty change, given that the transfers to national unemployment insurance schemes or directly to their countries’ job seekers would generate a moral hazard contrary to the provisions of articles 125 and, more generally, 310 TFEU. Indeed, this moral hazard could be addressed only through means of harmonisation of the social policies of the euro countries, which is precluded by article 153(2) TFEU.

\(^{34}\) European Commission, Blueprint, 2012, Op. Cit. (see footnote no.28), p. 32

\(^{35}\) See, e.g. European Commission, Blueprint, 2012 Op. Cit. (see footnote no. 28); Herman van Rompuy, President of the European Council, Towards a Genuine Economic and Monetary Union (known as the Four Presidents’ report), Brussels, 5 December 2012; Michaela del Monte and Thomas Zandstra (European Parliament Research Service), Common unemployment insurance scheme for the euro area, Cost of Non-Europe Report, Brussels, June 2014; IMF, 2013, Op. Cit. (see footnote no. 33)
Nevertheless, two transitional solutions could be implemented. The first would consist of using the semi-automatic stabilisation mechanism described above in order to finance specific unemployment-related projects normally funded by the Member States so that the liberated funds can be redirected to unemployment subsidies. In addition, a European Incentive Scheme for Mobility could be proposed by the Commission in order to achieve the objective set out in article 46(d) TFEU\(^{36}\). This scheme could use the Erasmus model in order to provide job seekers from countries where unemployment exceeds a fixed rate with grants in order to allow them to move to another EU country where the chances of finding a job can be assessed by the Commission to be objectively higher. In this case, the moral hazard would be addressed through a direct contract between the Commission and each individual applicant setting out their specific rights and duties.

**CONCLUSIONS**

In the previous sections the deficiencies of the EMU’s functioning in terms of democratic legitimacy and political accountability have been analysed with a view to identifying the potentialities existing within the framework of the current Treaties that would allow the EMU to work in a more democratic and efficient way, as well as the limitations that the Treaties impose.

On the one hand, the democratic legitimacy of decisions made under the EMU umbrella could be strengthened thanks to a greater involvement of the European Parliament and a better division between the executive and representative powers of the European / euro area institutions. On this matter, the current Treaties would allow clearer political responsibility to be assigned in economic and fiscal matters of the euro area, which would be embodied by an EMU Finance Minister (combining the roles of a full-time President of the Eurogroup and Vice President of the European Commission) and democratically controlled and sanctioned thanks to the full exploitation of the European Parliament’s powers. In addition, recommendations were made in order to avoid negative interferences by the Member States through the European Council and shifting decision-making powers to the European Commission.

A set of proposals were also presented regarding the capabilities and procedures at the disposal of an EMU executive to implement medium- and long-term macroeconomic policies aimed at improving the resilience of the euro area to asymmetric shocks. Such policies would set a strong framework of shared responsibility for the economic and fiscal policies of the euro countries, laying the foundations for the development of genuine European solidarity mechanisms. Yet, when it comes to this last issue, the Union falls short of instruments to address the moral hazard inherent in solidarity, given that harmonisation of social policies is precluded by the Treaties. Nevertheless, although treaty revision would be required to attain this objective, transitional solutions, such as semi-automatic macroeconomic stabilisers, could be used to circumvent this limitation, at least partially.

\(^{36}\) Article 46 TFEU states: “The European Parliament and the Council shall [...] make regulations setting out the measures required to bring about freedom of movement for workers [...] in particular: [...] (d) by setting up appropriate machinery [...] to facilitate the achievement of a balance between supply and demand in the employment market in such a way as to avoid serious threats to the standard of living and level of employment in the various regions and industries.”
On the other hand, as regards strong and effective assignment of political responsibility for EMU decisions, although the current provisions of the European Semester would allow most of the EMU executive powers to be concentrated in the hands of an identifiable government-like structure, the Treaties would leave ultimate decision-making powers in the hands of euro countries’ governments. Apart from that, the financial provisions of the Treaties would not allow the EMU to become financially autonomous enough, which would still leave the final implementation of EMU policies in the realm of intergovernmental decision making.

Finally, the implementation of a Single Economic and Fiscal Policy for the EMU could be hindered by the lack of legal instruments supporting the implementation of macroeconomic convergence strategies or direct actions by the EMU’s institutions. Indeed if a euro country is not in need of European financial assistance, the EMU would be unable to avoid the potential negative spillovers generated by national policies.

Therefore, the reform of the EMU and its further development into a governance structure for the implementation of a Single Economic and Fiscal Policy would require a two-step approach. First it could already be significantly improved through the adoption and modification of EU secondary legislation. The implementation of the proposals formulated in this paper would result in the strengthening of the EMU executive and its parliamentary counterparts. These configurations are more likely to be in line with the aspirations of European citizens and to increase their support for any reform of the Treaties.

In a second stage, treaty revision is required. Although this is beyond the scope of this paper, the limitations identified suggest that any revision of the constitutional framework of the EU as regards the EMU should consider the conferral of crucial powers and tools for the effective functioning of the currency union, such as the harmonisation of social policies, taxation powers, the capacity to contract debt within the limits of the SGP, enforceable instruments supporting the implementation of EMU macroeconomic convergence strategies, direct powers of intervention for the implementation of euro-wide policy strategies as well as corresponding reforms of the institutions towards a fully-fledged federal parliamentary democracy.
## Annex I: Summary of proposals and implementation methods

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Description</th>
<th>Possible within the current Treaties</th>
<th>Treaty revision required for definitive settlement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Proposal 1.</strong> Involving the EP in the key stages of the European Semester, in particular in the adoption of Country-Specific Recommendations (CSRs), Economic Partnership Programmes (EPPs), Corrective Action Plans (CAPs) and sanctions.</td>
<td>Revision of specific Six-Pack and Two-Pack provisions</td>
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<tr>
<td><strong>Proposal 2.</strong> Providing the EP with the possibility of pushing Alert Mechanism Reports (AMR) through the European Semester.</td>
<td>Revision of specific Six-Pack and Two-Pack provisions</td>
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<tr>
<td><strong>Proposal 3.</strong> Conferring the right to the EP to require a hearing of the Head of the Government or one of the ministers of the Member State concerned by CSRs, EPPs, CAPs, sanctions or AMRs before vote.</td>
<td>No act required (After implementation of proposals 1 &amp; 2)</td>
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<tr>
<td><strong>Proposal 4.</strong> Creation of a new Committee of the European Parliament on EMU Affairs. This Committee would be composed only by MEPs elected in euro countries and it would carry out all the preparatory, deliberative and monitoring work currently undertaken by the ECON Committee, but limited to the area of the EMU.</td>
<td></td>
<td>Parliament’s vote on a proposal from the Conference of Presidents</td>
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<tr>
<td><strong>Proposal 5.</strong> Creation of a super-Committee for the euro area regrouping all the MEPs elected in the EMU. This super-Committee would formally be a standing Committee of the European Parliament but entitled to discuss and decide on the transferal to the plenary of reports prepared by the Committee on EMU Affairs (see Proposal 4 above).</td>
<td></td>
<td>Modification of the EP RoP + Parliament’s vote on a proposal from the Conference of Presidents</td>
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<tr>
<td><strong>Proposal 6.</strong> Concentrating executive tasks in the Commission by suppressing the role of the Council in the assessment of DBPs and in the monitoring of the implementation of CSRs, EPPs and CAPs.</td>
<td>Revision of specific Six-Pack and Two-Pack provisions</td>
<td></td>
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</tr>
<tr>
<td><strong>Proposal 7.</strong> Appointment of a full-time President of the Eurogroup with no national mandate.</td>
<td></td>
<td>Decision by the Eurogroup (Simple majority)</td>
<td></td>
</tr>
<tr>
<td>Proposal</td>
<td>Description</td>
<td>Possible within the current Treaties</td>
<td>Treaty revision required for definitive settlement</td>
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<td></td>
<td>Ordinary Legislative Procedure (QMV)</td>
<td>Simplified Revision Procedure</td>
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<tr>
<td>Proposal 8</td>
<td>Interinstitutional agreement between the Council (ECOFIN/Eurogroup configuration) and the European Parliament committing the Eurogroup to dismiss its President should the European Parliament adopt a motion to this purpose.</td>
<td>Special Legislative Procedure (unanimity)</td>
<td>Interinstitutional agreement between the European Council, the Council, the Commission and the European Parliament</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-legislative act</td>
<td>Inclusion of the modified provisions of Protocol 14 into the TEU under Title III Provisions on the Institutions</td>
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<tr>
<td>Proposal 9</td>
<td>Permanent invitation of the President of the Eurogroup to Euro Summit meetings.</td>
<td></td>
<td>Idem</td>
</tr>
<tr>
<td>Proposal 10</td>
<td>Merger of the positions of President of the Eurogroup and Vice-President of the Commission (Commissioner for Economic and Fiscal Affairs) based on the HR/VP model, creating a de facto “EMU Finance Minister”.</td>
<td></td>
<td>Idem</td>
</tr>
<tr>
<td>Proposal 10 bis</td>
<td>Commitment by the President of the Commission to ask for the resignation of the VP for Economic and Fiscal Affairs should the European Parliament vote a motion to dismiss him/her from the position of President of the Eurogroup.</td>
<td></td>
<td>Idem</td>
</tr>
<tr>
<td>Proposal 11</td>
<td>Merger of the administrative structures under the authority of the VP (DG ECFIN) and the respective services of the Council (DG G).</td>
<td></td>
<td>Idem</td>
</tr>
<tr>
<td>Proposal 11. Option A</td>
<td>Migration of Directorate General G of the Council (or of a considerable part of it) to the Commission under the structure of DG ECFIN.</td>
<td>Council Decision based on article 352 TFEU</td>
<td>To be specified in the TEU provisions formalising the position of Eurogroup President/VP</td>
</tr>
</tbody>
</table>
### Providing the Euro area with an additional budget

<table>
<thead>
<tr>
<th>Proposal 12</th>
<th>Possible within the current Treaties</th>
<th>Treaty revision required for definitive settlement</th>
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</thead>
<tbody>
<tr>
<td><strong>Proposal 12.</strong> Creation of an EMU additional own fiscal capacity (in essence: a euro area budget).</td>
<td>Ordinary Legislative Procedure (QMV)</td>
<td>Special Legislative Procedure (unanimity)</td>
</tr>
<tr>
<td><strong>Proposal 12. Option A.</strong> Establishment of an EMU additional fiscal capacity through the creation of a new line in the EU general budget financed with specific earmarked resources.</td>
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<tr>
<td><strong>Proposal 12. Option B.</strong> Establishment of an EMU additional fiscal capacity through the creation of an enhanced cooperation scheme.</td>
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<tr>
<td><strong>Proposal 12. Option C.</strong> Establishment of an EMU additional fiscal capacity through an internal agreement.</td>
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<tr>
<td><strong>Proposal 12. Option D.</strong> Establishment of an EMU additional fiscal capacity through an intergovernmental treaty.</td>
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</tr>
</tbody>
</table>

### Improving the own resources system of the EU or the EMU

<table>
<thead>
<tr>
<th>Proposal 13</th>
<th>Possible within the current Treaties</th>
<th>Treaty revision required for definitive settlement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Proposal 13.</strong> Reforming the system of own resources of the Union in order to disconnect own resources from Member States’ contributions.</td>
<td>Ordinary Legislative Procedure (QMV)</td>
<td>Special Legislative Procedure (unanimity)</td>
</tr>
<tr>
<td><strong>Proposal 13. Option A.</strong> Taking contributions to the EU budget out of the Member States’ national balance sheets, at least for the effects of the European Semester.</td>
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</tr>
<tr>
<td><strong>Proposal 13. Option B.</strong> Creation of a Generalised Correction Mechanism financed with traditional and new own resources and used to refund the part of each Member State’s contributions exceeding 0.2% of the average contribution-GNI ratio.</td>
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</tr>
<tr>
<td><strong>Proposal 14.</strong> Reform of the VAT-based own resource, with the establishment of an EU or EMU rate of 2% maximum applied to the national VAT revenue from all goods and services currently subject to the standard rate.</td>
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</tr>
<tr>
<td>Proposal</td>
<td>Description</td>
<td>Possible within the current Treaties</td>
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<tr>
<td><strong>Proposal 15.</strong> Establishment of a European Financial Transaction Tax.</td>
<td>Possible within the current Treaties</td>
<td></td>
</tr>
<tr>
<td><strong>Proposal 16.</strong> Assignment of one part of the revenue from the European Emission Trading System to the EU or the EMU</td>
<td>Council directive (existing Commission proposal)</td>
<td>Simplified Revision Procedure</td>
</tr>
<tr>
<td><strong>Proposal 17.</strong> Establishment of a European excise on tobacco and alcohol products.</td>
<td>Special Legislative Procedure (unanimity)</td>
<td>Ordinary Revision Procedure</td>
</tr>
<tr>
<td><strong>Proposal 18.</strong> Definition of a European Common Corporate Tax Base.</td>
<td>Non-legislative act</td>
<td>Treaty revision required for definitive settlement</td>
</tr>
<tr>
<td><strong>Proposal 19.</strong> Creation of an EU Corporate Income Tax consisting of a minimum European corporate income tax applicable to the Common Corporate Income Tax Base and including a European bracket to fund the EU/EMU budget.</td>
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</tr>
<tr>
<td><strong>Proposal 20.</strong> Transfer of a part of the profits generated by the ECB’s financial operations to the EIB in order to reimburse project-bonds and feed European investment funds.</td>
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<tr>
<td><strong>Proposal 21.</strong> Conversion of a part of the profits generated by the ECB’s financial operations into a new own resource of the EU or the EMU.</td>
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<tr>
<td><strong>Proposal 22.</strong> Reduction of collection costs of traditional own resources from 20% to 10%.</td>
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</tbody>
</table>
### Proposal 23. Creation of a Single Economic and Fiscal Policy (SEFP) for the EMU, with the following prerogatives:
- Strategic framework for macroeconomic policy in the EMU (general strategies, CSR and thematic roadmaps).
- Implementation of strategic framework through: 1) coordination of national labour, social and economic policies; 2) establishment of minimum standards in key public policies; 3) provision of incentives/imposition of sanctions; and 4) direct European public investments in projects representing an interest for the entire EMU.
- Confidence building measures.

### Proposal 24. Creation of a semi-automatic macroeconomic stabiliser, funded by contributions from Member States calculated as a function of their output gap during early- and mid-cycles, and used to finance specific counter-cyclical projects in countries affected by an asymmetric shock.

### Proposal 25. Creation of a European Incentive Scheme for Mobility, based on bilateral contracts between the physical beneficiaries and the Commission and providing grants to promote workers’ mobility between EMU countries.
ABOUT THE ORGANISATION:

The Union of European Federalists (UEF) is a pan-European, non-governmental political organisation dedicated to the promotion of European political unity. Throughout the past 70 years it has been a leading voice in the promotion of European unity and an early campaigner for key milestones in the development of the European Communities and the European Union.

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