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The European Council of 24–25 March: heading towards an economic union?

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"Break-through", "turning point", "quantum leap" – these were the expressions used by the president of the European Council, Herman Van Rompuy, when evaluating the outcome of the latest EU summit meeting on economic policy issues. He mentioned this especially in connection with the situation one year ago when the heads of state or government pledged to find a way out of the serious public finance crisis threatening the stability of the euro area and asked the president to set up a task force with the mission to elaborate comprehensive proposals to that end. Since then quite a lot has been achieved.

After the bail-out of the financial sector and the launching of recovery packages in many countries, the European economy is struggling with sluggish growth, high unemployment and huge public finance imbalances. The EU is fighting the crisis and its aftermath on several fronts. Taking into account the main decisions of the past year, including the latest European Council meeting, six points can be mentioned in this regard.

First, back in June 2010 the Europe 2020 strategy for smart, sustainable and inclusive growth was adopted with five headline targets on employment, research and development, climate change, education and social inclusion. As proposed by the Commission's Single Market Act, the most recent summit added the initiative to upgrade the single market to the new competitiveness strategy. The European Council encouraged the European Parliament and the Council to adopt "a first set of priority measures to bring a new impetus to the Single Market" by the end of 2012.

Second, for the sake of competitiveness and stability, the public finances of the member states must be put in order and in the longer run similar crises are to be prevented. To this end the economic pillar of economic and monetary union had to be reinforced, leading to the introduction of European economic governance. Within this framework, and in accordance with the so-called *European semester*, as at the beginning of every year, the Commission is publishing its annual growth survey based on which the European Council adopts strategic economic policy advice for member states. Based on this, member state governments draw up their national stability/convergence programmes (focusing on public finances and budgetary planning) as well as their reform programmes (focusing on compliance with the targets of the Europe 2020 strategy). The next step is that following the assessment and recommendations from the Commission and the decision by the Council, every member state receives country specific guidance and policy advice by the summer to be integrated into national draft budgets which then have to be forwarded to the national parliaments. This mechanism serves as an ex-ante coordination of economic policies and ensures tighter macroeconomic surveillance than ever before.

Third, if (euro area) member states breach their budgetary commitments and violate the stability and growth pact they will be effectively fined unless a qualified majority of the member states decides otherwise. By the same token, more emphasis will be placed on public debt and in general on public finance imbalances. To this end a package of six legislative proposals (five regulations and a directive) was tabled by the Commission and was endorsed at this European Council. Now it should be discussed and adopted by the European Parliament by the end of June so that they can effectively underpin the European economic governance cycle.

Fourth, if despite all these preventive mechanisms a member state finds itself in a serious debt crisis it can turn to the European Stability Mechanism to be launched in 2013. The European Council endorsed the wording of the Treaty modification on this point and urged the member states to ratify this small change as soon as possible (the European Parliament has already given this amendment a green light). Article 136 of the Treaty on the Functioning of the European Union shall be amended with this paragraph: "The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality." The latest European Council has just agreed on the exact amount of the European Stability Mechanism (ESM) and on the technical details regarding the accumulation of its capital. The €500 billion lending capacity of the ESM (with a total of 700 billion subscribed capital) should succeed the currently operating European Financial Stability Facility which has a transitory mandate and a €440 billion support framework.

Fifth, from the beginning of this year the financial sector in the EU is subject to much closer supervision than ever before. Through the new system macro-prudential supervision is being carried out by the European Systemic Risk Board while micro level control is assigned to three new institutions: the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority. In addition to this permanent supervision system the latest European Council decided to launch a new stress test for banks and the member states will be required to prepare "ambitious strategies for the restructuring of vulnerable institutions". A new approach to financial sector taxation will also be discussed later this year.

Sixth, based on a German-French initiative the euro area member states as well as Denmark, Poland, Lithuania, Latvia, Romania and Bulgaria have adopted the so-called Euro Plus Pact, paving the way for an even stronger macroeconomic coordination of competitiveness-related issues, binding the member states to make more commitments in policy areas such as the labour market, pensions, health care, social security and direct taxation. Staying outside, the UK, Sweden, the Czech Republic and Hungary can revise their policy later on and can of course join in the cooperation on any point with which they agree.

Taken together, all of these comprehensive measures support the view that historical decisions have been and will be taken to mitigate the devastating impact of the recent financial and economic crisis and to move the EU towards greater social, economic and financial stability, sustainability and competitiveness. One should not forget however that these measures are built on different foundations, ranging from legally binding regulation, through coordination and peer review, to intergovernmental cooperation with partial participation and opt-outs. These mixed modes of governance, together with the lengthy decision-making processes and the great complexity of the outcome, reflect the differences in member state approaches and attitudes. But simultaneously they reflect willingness to act together towards reinforcing the EU after the crisis. Despite all these key achievements, however, we cannot speak about a full-fledged economic union. Building upon full market integration (the four freedoms) this would presuppose the harmonisation of macroeconomic policies of the member states. Although this is still not the case, the European Union has recently made crucial steps toward substantially strengthening the economic pillar of economic and monetary union. Undoubtedly, robust foundations for a stronger EU and euro zone have been laid – the question is how these new measures, institutions and mechanisms will function in the coming years.

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