



**Contributions from the Sherpas
of the Member States to
the Five Presidents' Report**

ITALY

First Contribution

To the working group of the Sherpas on 4 Presidents report

As it was highlighted during the first meeting of the working group of the Sherpas, Italy is looking forward to an ambitious report, laying the groundwork for an open, inspiring debate on the functioning of the EMU. While the questions spelled out in the Analytical note are certainly to the point and of great relevance, they do not cover the entire range of issues that deserve thorough consideration.

Some key issues need to be discussed such as how to bolster the Eurozone in order to make sure that Euro is perceived as irreversible; how to make sure that the EMU has all the instrument to react to crisis; how to improve the Eurozone macroeconomic performance (providing the EMU with a wider array of tools both on the supply and demand side); how to make sure that the nexus between mutual responsibility and solidarity is correctly addressed; how to make sure that the institutional setup of the EMU is up to the task. Ultimately, the above questions lead to the issue of democratic legitimacy – political Union.

In addressing those issues, we don't need to start from scratch. We need to build on past experience and draw from proposals that have already circulated in recent years.

Looking forward to the next stages, Italy has launched a wide ranging national debate. Drawing, among others, upon the results of this debate, Italy will present in the next few weeks a more articulated contribution on the issues mentioned above.

Please find hereby some preliminary and general remarks.

Marco Piantini

We need an ambitious report

European leaders should show a strong determination to preserve a high level of ambition and of political will for the European project. The report of the Four Presidents should give the right signal: after the financial “whatever it takes” by the ECB a **political “whatever it takes”** by all Institutions is needed. We need to preserve the irreversibility of the Euro, to avoid any internal fragmentation in the Eurozone, to promote its resilience in responding to shocks, to improve its performance (see comparison to the US economic performance). We must move from “common rules to common institutions” as suggested by Mario Draghi. The peak of social discontent towards Europe could still be ahead and bring devastating consequences. **Europe needs do adapt and keep up the rhythm of change** as governance instruments are concerned. Changing our governance means making it more effective, democratic, fair.

Much has been achieved, much is still to be done

The economic governance coordination is now more comprehensive, ESM contributed to the financial stability and the Banking Union is ensuring a sounder financial sector as well as steps towards breaking the vicious circle between banks and sovereigns.

We should follow with determination and even accelerate the working plan outlined in the Four Presidents report in December 2012. Also some ideas of the Blueprint by the Commission should be taken into consideration.

A social dimension to ensure consensus

The crisis left a heavy legacy in terms of unemployment and poverty. Investment has reached historical lows, with a dramatic impact on economy and growth potential. The need to preserve our social model, the world most advanced one, is a matter of common interest for all EU member states, as European integration is now widely seen by public opinion as a threat to social protection. Shared social policies play a crucial role to define the European identity. Putting them at the centre of the agenda constitutes a key condition for further steps in the process of integration and democratic consensus.

The crisis has widened divergences in economic performances of Member States. An even more dramatic increase has been registered in inequalities within countries and across generations. It is widely acknowledged that high and prolonged unemployment levels, by reducing demand, undermine both short-term and long-term growth. In addition, social costs and increased poverty have a negative long-term impact on labor productivity. Many countries are already experiencing a concrete risk of a generational gap, leading to a lost generation even after the recovery, with unmeasurable losses in human capital and growth potential. This calls for effective and immediate action. Europe shall address this social emergency with one voice, adopting far-reaching initiatives to give to its citizens, and to youngest generations in particular, reasons to believe that integration can be a source of opportunities.

The current debate on European solidarity is biased by a fictitious contrast between debtor and creditor countries. The recurrent debate on the juste retour concerning the EU budget is also part of this trend. This framing the debate as a zero sum-game is both incorrect and dangerous, and feeds extremist and nationalist sentiments and gives credibility, among other things, to the voices calling for a euro area exit in response to years of austerity measures. This is strongly linked to the lack of substantial own resources for the EU budget.

We need to shift the debate from solidarity among MSs to solidarity among EU citizens. A **European unemployment benefit scheme** would serve as a EU automatic stabilizer, help moderate the economic cycle, tackle asymmetric shock, address distributive issues. Last but not least, it would also serve as a concrete proof of EU solidarity. Presenting it as the social aspect of the “European citizenship” could strengthen the European identity and the popular support to the European project, highlighting at the same time the win-win character of integration. In this context it is important to recall also the need to extend and **strengthen the Youth Employment Initiative** and to improve the functioning of the Youth Guarantee.

Improving the governance framework as a factor of cohesion of the EMU

The assessment of the current governance framework should consider to what extent it has been successful in achieving deeper integration, policy coordination and convergence of economic performances. The existing set of rules, strengthened mainly to foster credibility and confidence and to directly address imbalances, proved to be rigid and not adequate to deal with prolonged recession and weak growth, resulting in pro-cyclical policies. Simultaneous public and private deleveraging across the euro area put a heavy burden on growth and employment.

The current wide imbalances are incompatible with an economic union and their monitoring and reduction should be a main policy concern. The governance structure should be improved towards a cooperative rebalancing within the economic area. Increased coordination of budgetary policies, already implemented in the euro area with the alignment of the presentation of draft budgetary plans and their discussion at the level of the Eurogroup, is a meaningful achievement. However, more needs to be done in the definition and implementation of a coherent EU/euro area policy mix. A much clearer link should be established between the analysis and policy recommendation at aggregate level and their country specification.

The framework of the European semester can play a key role. Strengthened monitoring and peer review of national reforms is welcome but not enough. A stronger cross-member dimension is necessary given the presence of economic and political spillovers. While during the crisis, member states have focused on a defensive approach against negative spillovers, there are consistent positive economic and political spillovers from coordinated EU policy making. This is true at the level of the euro area, as well as at the level of the Union. Their consideration can prove the added value of coordinated policy action across countries to foster growth and restore and consolidate mutual trust.

National ownership of reforms should be maximized, as the most effective tool to increase the likelihood of thorough implementation. National parliaments and government should take the lead on the reforms process to be fully accountable for their implementation. But national reforms, which are necessary in all countries, need to be complemented by far-reaching EU level initiatives, building consistent EU level frameworks and road maps for action.

The internal market potential should be fully exploited. Reforms are still needed in product, energy, transport, services, public services, labor markets, intellectual property and digital economy. Their full potential can be released with the support of investment in interconnecting infrastructures. Increased coherence among tax systems and simplification as well as financial integration towards the creation of a Capital Markets Union, are EU level growth-friendly reforms.

To invert the course of declining growth, the foundations of future Europe has to be built on its innovative capacity and human capital. Knowledge-intensive initiatives, focusing on more investment in research, innovation and high-level education, should be at the center of European action. In recent years, countries undergoing fiscal consolidation have cut considerably their public research and innovation (R&I) budgets. This led to an increasing R&I divide in Europe, which can be only partially redressed by Commission resources. In this perspective, **the EU budget and the Juncker investment plan should focus on education, skills and professional training, research and innovation**, as European public goods with the highest growth potential.

A new Eurozone governance with a fiscal and borrowing capacity

The successful implementation of a consistent policy mix at euro area level - including monetary policy, an appropriate fiscal stance and a comprehensive strategy of structural reforms - calls for a credible road-map towards mutual trust and risk sharing as opposed to the current fragmentation.

Indeed, there is a fundamental ingredient still missing to genuinely progress towards further integration: **a fiscal and borrowing capacity**, including possibly an issuing capacity or common stabilization mechanisms. Its absence implies the inability to cope with asymmetric shocks. This makes the EMU inherently fragile and is a major source of uncertainty on its future, and makes it look reversible. On the contrary, stability stemming from the strong political signal of deepened integration

would create a more favorable economic climate that supports the reform efforts and triggers positive economic expectations.

To this aim, a far-reaching political vision is needed as well as a pragmatic approach to implement it. To build broad consensus, a gradual phasing in can be envisaged, provided that it signals a common sense of direction and unity of purpose. We need to envisage better performing/more creative tools. This is intertwined with the reflection on own resources (Monti group).

For a more democratic and accountable governance

In developing the EMU as in European integration generally, **the level of democratic legitimacy always needs to remain commensurate with the degree of transfer of sovereignty from Member States to the European level.** The European Parliament can ensure democratic legitimacy and accountability for decisions taken at EU level. Therefore, a further strengthened role of EU institutions should foresee a comparable involvement of the European Parliament in the EU procedures. **Enhanced cooperation** coupled with the use of the passerelle clauses in some sectors could be useful. The Parliament could be better involved of in the discussions on the Commission's Annual Growth Survey, and regularly informed of the preparation and implementation of the adjustment programs concerning Member States receiving financial assistance.

A new, autonomous fiscal and borrowing capacity – including the possibility of issuance of EU or Eurozone sovereign debt - should be accompanied by a proper democratic accountability, first and foremost through the codecision procedure.

Towards a Political Union

The December 2012 Report set the goal of a vague “Political Union”. The new Report should reaffirm this goal and flesh out its content taking into account the new international scenario. External threats are surrounding the EU from all sides. The Lybian and the Ukrainian crisis, the Middle East and the North African increased instability imply new major challenges. The world balance is titling towards Asia and the Pacific, just as the US foreign policy focus. The time is now for the EU to step up its presence and maintain a role in the world. The passerelle clauses is an option which can be used on foreign policy. The willingness of at least some MSs to start the permanent structured cooperation on defence to pave the way towards military integration should be explored.

The road map

The Report, where needed, has to clarify the contents of the goals set out in the 2012 Report still to be reached, namely the fiscal, economic and political union. It should also provide an indicative road map to reach them. Much can - and should be done quickly - within the current legal framework.