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COMPLETING AND REBALANCING ECONOMIC AND MONETARY UNION
A DEMOCRATIC CALL

«Would you tell me, please, which way I ought to go from here?
That depends a good deal on where you want to get to,» said the Cat
I don't much care where..., said Alice
Then it doesn't matter which way you go, said the Cat
...so long as I get somewhere, Alice added as an explanation.
Oh, you're sure to do that, said the Cat, if you only walk long enough»
(Alice's Adventures in Wonderland, Lewis Carroll)

FOREWORD

In this position paper, the Group of Socialists and Democrats in the European Parliament calls for a major overhaul of Europe's Economic and Monetary Union. It contributes to identify, and to define, why and how EMU should evolve from the near to the more distant future.

The Eurozone has failed to deliver on the main goals of the European Union in terms of sustainable growth, employment, social progress, cohesion and stability.

Flaws in the initial design of the single currency have made the effects of the global economic crisis deeper and longer, generating huge economic costs, social suffering and political tensions within and between Member States.

This position paper claims that without major reform, aiming at the completion of EMU, neither will the crisis be properly overcome, nor will the EU succeed its necessary transformation into a democratic, sustainable, cohesive and competitive growth model, without which it will ultimately fail to safeguard and reinforce its democratic and social values and standards in an increasingly competitive and fast-changing world. To guarantee the EMU's sustainability in the long run, the EMU reform process should also involve re-launching a dynamic process of structural convergence amongst its member countries and regions within an inclusive and competitive Single Market.

This reform of EMU must address its inherent flaws and weaknesses upfront, through courageous and intelligent political, economic and social change. Key proposals made by the Group of Socialists and Democrats include:

- A major qualitative leap in democratic decision-making processes;
- Closer economic policy coordination and the development of an EMU economic policy based on a truly joint approach regarding the Eurozone's aggregate fiscal stance - in particular, to take proper account of the impact of aggregate EMU fiscal policy on the Eurozone's domestic demand and its financial resources - regarded as a necessary condition for an improved macroeconomic policy mix, to allow for proper aggregate demand management and clear measures to reduce social and gender inequalities;
- Balanced monitoring of national current accounts in order to address both deficits and surpluses through country-specific recommendations in a way that supports structural convergence
- A progressive growth agenda combining much higher investment and socially balanced structural reforms;
- Common fundamental social standards and a common consolidated corporate tax base to prevent a social and a fiscal race-to-the-bottom between countries;
- An EMU fiscal capacity, encompassing own resources and a borrowing facility with two main aims:
  - Providing a tailored instrument to improve the absorption of country-specific economic shocks;
  - Boosting social investment, helping to restore structural convergence between Eurozone members during the crisis exit phase

The Group of Socialists and Democrats calls upon the Presidents of the European Commission, the Euro Summit, the Eurogroup and the European Central Bank to submit a report on the completion of EMU to the European Council addressing openly the major challenges ahead, and to do so with the full involvement of the President of the European Parliament. This Five Presidents' report should provide a comprehensive and far-reaching roadmap for the gradual completion of EMU, with clear proposals for more immediate reforms and for longer term changes, including changes which will require a reform of the existing Treaties.

It equally calls upon the European Council to commit to a democratic process for implementing the overhaul of the existing EMU, as outlined in this position paper. It will spare no efforts in coming months to drive this ambitious and necessary reform agenda forward.

1. AN UNFINISHED JOB

The EU as a whole is confronted with a reality that cannot be denied - Economic and Monetary Union has so far failed to deliver the main goals set out in the Treaty on European Union: sustainable and balanced growth and price stability; with full employment and social progress; and economic, social and territorial cohesion.

This has been felt particularly hard through the crisis.

After the initial European Economic Recovery Plan of 2008-9 was replaced with a policy mix of austerity and internal devaluation, a second recession hit most of the Eurozone from 2011 onwards, youth unemployment and long-term unemployment soared to unprecedented levels, wages and collective bargaining systems have come under severe attack, on out of four Europeans are at risk of poverty or social exclusion, with women being the most hit, inequalities have risen, lower-income groups are exposed to economic insecurity, investment collapsed by nearly 20% from pre-crisis levels, debt/GDP ratios have worsened in many countries, and the Eurozone is on the verge of deflation.

The internal divergences of the Eurozone were magnified by the financial crisis and the process of economic and social convergence which has characterised European integration for decades has been reversed.

This is already translating into serious political tensions and risks, as anti-European and extreme political forces are gaining important ground in a number of Member States.

Unfortunately, none of this is yet over.

The mild recovery driven primarily by low oil prices and expansionary monetary policies remains fragile, deflationary risks persist, companies and households are struggling to repay old debts and sovereign debt/GDP ratios are likely to decline only very slowly, while national fiscal policies will remain heavily constrained. The Eurozone is confronted with a serious risk of secular stagnation, with nominal growth below 2 percent for 5-10 years. The euro area would be unlikely to survive such a Japanese-style decade because the necessary adjustment processes in crisis countries would take far longer in such an environment than would be politically, socially and economically bearable.

During the crisis, the EU and the Eurozone have accumulated huge economic and social costs, including additional forms of macroeconomic as well as social and gender imbalances, which must now be fully addressed. This will not be possible without the completion of the EMU.

The crisis has laid bare the structural deficiencies of the Eurozone’s political and institutional build, which date back to the EMU’s origins in the early 1990s.

Major flaws, such as its limited democratic dimension, the weakness of its economic policy coordination (despite increasingly complex and legally binding policy processes) or the lack of an anti-cyclical fiscal capacity to tackle asymmetric shocks, have been identified since many years. The over-reliance on an excessively rules-based system has constrained the Eurozone’s ability to deal with its economic crisis and hindered the emergence of real and common policy-making. Accordingly, the Four Presidents’ report "Towards a Genuine Economic and Monetary Union" of December 2012 formulated the need for a banking, fiscal, economic and political union. However, lack of political will and prevalence of national narratives about the Eurozone crisis have until now prevented adequate EMU reform from being implemented.

When the global financial crisis hit, the Eurozone was just not equipped to effectively resolve it, and the sovereign debt crisis brought it to the edge of survival.

Governments have responded to this crisis in an incremental way, through several EMU-specific initiatives and others at the EU level. This notably brought about the launch of financial stabilisation mechanisms including the European Stability Mechanism, the

European Semester process, the revision of the Stability and Growth Pact, the intergovernmental Treaty on Stability, Coordination and Governance, the two-pack regulations on fiscal surveillance, a new Macroeconomic Imbalances Procedure, the banking union, the important recent clarification of SGP's in-built flexibility, a range of unconventional monetary policies deployed by the ECB, or the newly proposed European Fund for Strategic Investment (EFSI).

These changes now need to be completed by several major reforms to the EMU's way of working - on how decisions are taken and implemented, with which instruments, and along which rules and policy concepts. The Eurozone must now, once and for all, move away from ad hoc instruments and funds created under emergency towards a structural and coherent institutional framework endowed with adequate resources and democratic legitimacy.

2. PROPOSALS FOR A DEMOCRATIC, SUSTAINABLE, COHESIVE AND COMPETITIVE ECONOMIC AND MONETARY UNION

In order to deliver fundamental Treaty goals, the EMU needs to reform its architecture and its system of governance in the following way:

2.1 A DEMOCRATIC OFFENSIVE

More democracy at the European level:

- The European Parliament and the Council should, further to the necessary Treaty change, jointly decide on the policy recommendations contained in the Annual Growth Survey and in the Integrated Guidelines for economic and employment policies, which should be merged into one package of annual policy proposals
- Until this is achieved, an Inter-Institutional Agreement on Improved Socio-Economic Governance should be agreed by the end of 2015 in order to rapidly strengthen parliamentary legitimacy and control
- The role of the European Commission in the Eurogroup of finance ministers should be strengthened and be made more accountable to the European Parliament
- The European Stability Mechanism should become a Community instrument using decision-making procedures in line with European democratic principles, and should further on be integrated into the Treaty

More democracy at national levels:

- The Commission's Country Reports should be thoroughly discussed in National Parliaments
- National Reform Programmes and Stability and Convergence Programmes should be discussed, amended, and adopted by all National Parliaments

A stronger European and national democratic dimension is indispensable to secure robust political legitimacy of EMU policy-making. The current decision-making approach is not viable, and - if remaining as it is - will end up endangering the very political survival of the Eurozone. Furthermore, it is unthinkable to develop new EMU instruments and to deepen governance processes without democratic progress. Stronger democratic legitimacy is equally indispensable in order to strengthen the effectiveness of policy implementation on the ground, especially with regard to structural reforms. However, this does not require new institutions, especially at parliamentary level, but should be facilitated through the realisation of EMU membership for all Member States legally committed to joining within a clear and transparent timetable, and beyond.

EMU policy coordination should, in future, be democratically legitimised throughout the European Semester process:

- The Commission's Annual Growth Survey (AGS) should be presented at the start of the Semester jointly with the Integrated Guidelines (IG) on economic and employment policies. This EU-wide policy package, which sets the focus for national reform programmes and provides basis for Country-Specific Recommendations (CSRs), can only be made democratically fully legitimate at European level through the co-decision procedure, involving both the European Parliament and the Council on an equal footing. However, this requires a Treaty change, and can therefore not be achieved at present. Therefore, the three European institutions should without delay agree an Inter-Institutional Agreement on Improved Socio-Economic Governance, notably in order to ensure the due respect of Parliament's political views on the AGS/IG package.

- Powerful additional democratic legitimacy must also be achieved at national level. All national governments should ensure that their National Reform Programme and Stability and Convergence Programme are duly debated, amended and adopted by their National Parliament according to appropriate national procedures. The Commission's Country Reports should also be thoroughly discussed with National Parliaments and social partners before the Commission proposes Country-Specific Recommendations (CSRs).

- Within the existing Treaties, the role of the European Commission should also be strengthened and inter-institutional political processes should thereby be streamlined in the Eurogroup, endowing the competent European Commissioner with a more central and formal role in this group, for instance as a Eurogroup coordinator alongside the Eurogroup president. This should go alongside full accountability of both to the European Parliament. These elements should all be laid down in the above-mentioned Inter-Institutional Agreement.

Last, but not least, the European Stability Mechanism should be brought back into the EU normative framework, and further on it should be integrated into the Treaty. This also implies a restructuring of its decision-making procedure in line with EU democratic principles, such as in the case of the European Central Bank.

Beyond the parliamentary dimension, democracy within the EMU should also be more broadly reinforced through better social dialogue on Eurozone issues, as developed in 2.4.

2.2 CLOSER ECONOMIC POLICY COORDINATION AND A BETTER MACROECONOMIC POLICY MIX

A demand-driven macroeconomic policy mix to exit the crisis and tackle deflationary risks

An annual target for the aggregate fiscal stance of the Eurozone, taking full account of the ECB's monetary policy stance and of the economic situation in the Eurozone as a whole and in its national economies, to guide deeper economic coordination and proper macroeconomic contributions by all member states to common growth

An effective and comprehensive use of the Macroeconomic Imbalances Procedure, in particular to address excessive current account deficits and surpluses with equal determination

Stability- and growth-oriented Eurozone debt management focusing on long-term sustainability

Changes are needed in the Eurozone's macroeconomic policy mix in order to strengthen recovery in the short term and avoid a deflation. In particular, internal demand remains low, as evidenced by near-zero inflation and high unemployment. Deficient demand is linked to the increase in income inequalities and reduction of the wage share in total output over the past two decades as well as to the substantial weakening of national automatic stabilisers since 2010. Demand could be therefore stimulated by more progressive fiscal policy (with more favourable treatment of lower-income groups) and by continued wage increases in high-surplus countries, helping to strengthen consumer confidence.

Aggregate demand and reduction of social and gender inequalities should become a fourth pillar to be added to the 'virtuous triangle' of fiscal responsibility, structural reforms and investment, put forward in the Commission's Annual Growth Survey for 2015. This should include a gender equality dimension within the AGS and relevant CSRs.

Furthermore, as emphasised also in the Parliament's 2015 report on the review of the economic governance framework, economic policy coordination needs to be further deepened in order to ensure that all Eurozone countries contribute to macroeconomic adjustment and convergence, including those who have greater fiscal room for manoeuvre and could afford to run more expansionary fiscal policies given their extremely low borrowing costs. The Commission should therefore propose a target for the Eurozone's aggregate fiscal stance and its country-by-country composition in its annual recommendations to the Euro Area, to be discussed by the Eurogroup and approved by the Council and by the European Parliament under the ordinary legislative procedure.

Closer economic policy coordination goes beyond fiscal policy and demand management. The financial crisis is closely related to unsustainable macroeconomic imbalances within the Eurozone, notably excess savings and speculative investment. Hence, both national current account deficits and surpluses must be closely monitored, treated equally seriously and corrective measures on both sides be formulated in the relevant country-specific recommendations.

A better macroeconomic policy mix will not be achieved without a new approach towards stability- and growth-oriented Eurozone debt management, focusing on long-term sustainability, while avoiding risks of moral hazard. First of all, this will require a more favourable macroeconomic framework made up of higher growth, limited inflation and financial stability generating the lowest possible interest rates, within which the ECB will have to play an essential part. Within such a frame, a new debt management approach could encompass:

- a European long-term borrowing facility for major investments corresponding to EU and EMU priorities;
- a more cyclically-sensitive approach to debt reduction than what is currently laid down in the Fiscal Compact (debt rule), which may include the possibility for short-term borrowing;
- a limited and strictly framed redemption of certain existing public debts; in order to join such a redemption scheme in the most orderly way, Member States could subscribe to a "debt sustainability plan" lodged within their national stability and growth programme.

2.3 A PROGRESSIVE AGENDA OF TRANSFORMATIONAL INVESTMENT AND SOCIALLY BALANCED STRUCTURAL REFORMS

A sustained transformational investment policy for innovation, growth and jobs

A progressive structural reform agenda combined with investments in the framework of a strengthened Europe 2020 strategy, and an inclusive and competitive Single Market

In order to support stronger and truly sustainable growth by closing the output gap and by achieving massive and quality employment creation in future years, the EU and the EMU must develop a sustained and transformational investment policy at both European and national levels.

Some positive progress is now being made in this direction through the forthcoming European Fund for Strategic Investment (EFSI) and through the recent Commission communication on making the best use of flexibility within the existing rules of the Stability and Growth Pact.

However, these solutions will not on their own fill Europe's investment gap. Investment required in coming years is estimated at around 1.5 trillion euros just up to 2020 in particular on infrastructure and network systems in transport, energy and broadband, in order to shift Europe's economy towards a new sustainable and competitive growth model. Significant additional social investment will be required in conjunction, notably in the field of education, vocational training and lifelong learning systems, including in digital skills and new growth areas. Attaining such high levels of investment will demand a major and sustained increase in both national private and public investment levels across good and bad economic times, beyond the current capacity of the EFSI. This should be more adequately coordinated at EMU and European levels, in order to guide national public investment flows sufficiently towards European objectives, and to foster synergies and exploit positive spill-overs. Beyond the medium term, as detailed in section 2.5, an EMU fiscal capacity, including a borrowing facility, could further complement European investment, as an addition to, or integrated into, an evolved EFSI.

The forthcoming mid-term review of the Europe 2020 Strategy should contribute to the EMU completion process by helping to refocus structural reforms from labour cost-cutting to competitiveness based on factors such as innovation, resource efficiency, sustainable re-industrialisation, a well-functioning Single Market and social cohesion. It should also emphasise the link between growth-enhancing structural reforms and investments. The headline targets of Europe 2020 should be re-confirmed still in 2015 and operationalised by the next Annual Growth Survey and Integrated Guidelines. The 2016 National Reform Programmes should in turn clearly identify through which reforms and through which budgetary resources each of the national Europe 2020 targets is to be achieved.

A more progressive, socially balanced, agenda of structural reforms should encompass measures such as decisive shift of taxation away from labour to wealth and pollution; stronger employment and social policies that empower people, including more women, to productively participate in the economy and society, fight against tax avoidance through significantly improved transparency, notably ensuring that national tax policies and cooperation among tax authorities is in full line with the principle of sincere cooperation; strategies for innovative and sustainable re-industrialisation; and improvements in education and training systems, notably in new growth areas such as the Digital Single Market. Reforms should be aimed at supporting the broader transformation towards a fully sustainable new growth model by driving both stronger competitiveness for sustainable growth and social upward mobility, cohesion and fairness. All such reforms will need to be accompanied by sufficient levels of investment.

2.4. COMMON AND FUNDAMENTAL SOCIAL STANDARDS AND NORMS TO PREVENT A SOCIAL RACE-TO-THE-BOTTOM

A macro-social strategy to complete the Eurozone's macro-economic strategy
EMU-wide minimum social standards and norms
A Social Eurogroup at ministerial level
Stronger European social dialogue

A sustainable Economic and Monetary Union requires processes and instruments able to maintain social cohesion. Macro-economic policy strategies must be complemented by macro-social strategies, preventing excessive social inequalities within and between EMU countries and better connecting growth and public finance objectives to employment, income and social fairness objectives.

It goes without saying that this needs to be underpinned by sufficiently strong common social standards and norms within a well-functioning Single Market, especially in order to provide boundaries to internal devaluation processes where cost-cutting is required and thus to eliminate the risk of social dumping as a harmful source of social regression within Member States, leading to a social race-to-the-bottom within the Eurozone as a whole. A basic set of common and fundamental labour standards, active labour market policies, minimum income schemes and national floors on statutory or negotiated minimum wages, as well as standards of protection in unemployment should be established in the EMU.

Moreover, the recently strengthened monitoring and surveillance of employment and social imbalances and challenges in the context of EU economic governance should be adequately followed up in Country-Specific Recommendations. A minimal reform would consist of equipping the scoreboard of key employment and social indicators in the Joint Employment Report with warning thresholds highlighting the most worrying social situations and developments, triggering in-depth analysis in the Country Reports and where relevant Country-Specific Recommendations setting out how to address the identified employment and social problems. The scoreboard should also be presented in gender-disaggregated form. A more advanced reform of the existing processes would be to create a proper Social Imbalances Procedure (SIP) joined up with the existing Macro-Economic Imbalances Procedure, and providing for a legally enshrined macro-social surveillance and, as far as possible, for an enforcement of corrective policies when unemployment, poverty or inequalities reach alarming levels.

Such reinforcement in the EMU's socio-economic governance could also guide the use of funding provided from the EMU's fiscal capacity and would help to ensure that social crises undermining the whole EMU's functioning and growth potential are tackled in a timely and effective way. In this context, the role of the social economy - especially as a factor of resilience during bad economic times - should be properly recognised and fostered.

At institutional level, this approach should entail a stronger role for Employment and Social Affairs Ministers from within the Eurozone, alongside the institutionalised Eurogroup of Finance Ministers, in order to ensure a properly joint up and balanced contribution to the socio-economic policy agenda of EMU. Regular ministerial meetings within a Social Eurogroup should become the norm in the future to provide input to the Euro Summits on macro-social developments in the EMU.

Last, but not least, this new approach would greatly benefit from stronger social dialogue at EMU level, including exchanges of views on convergences or divergences in wage and productivity levels that could help inform national and sub-national collective bargaining.

2.5. DEVELOPING A COMPREHENSIVE EMU FISCAL CAPACITY

A tailored instrument to improve the absorption of country-specific shocks in cases where national automatic stabilisation capacities are exhausted

A European investment facility

A new scheme to boost structural convergence

A monetary union can only be strengthened if it can rely on a fiscal capacity enabling it to effectively develop, finance and implement union-wide economic policy strategies and to fight adverse economic shocks affecting one or more of its members, or the union as a whole, in particular when this leads to a major and long lasting crisis exhausting national automatic stabilisers, such as now. Private risk-sharing through financial markets can complement but cannot substitute fiscal shock absorbers.

Time has clearly come for EMU member countries and for the European institutions to accept this reality and to act accordingly by gradually developing a comprehensive fiscal capacity.

The key functions for a fiscal capacity are:

- addressing asymmetric, country-specific economic shocks
- addressing symmetric economic shocks affecting the whole of the Eurozone
- supporting adequate levels of investment in conjunction with national investment policies, targeted so as to promote balanced and sustainable growth
- redressing macroeconomic imbalances and promoting structural convergence among its members

Each of these functions requires specific instruments and processes, financing modes, and political/institutional settings.

A powerful symmetric shock management capacity and a strong Eurozone-wide investment capacity would need to be supported through a public borrowing capacity backed up by a Eurozone budget, at least partly financed by its own resources. This would of course equip the Eurozone with a fully-fledged capacity to manage its destiny through good and bad times and must remain the ultimate goal for EMU completion. However, this is a far reaching change and would require a major breakthrough in EMU-specific political integration.

To some extent, investment needs will now be better addressed across the EU as a whole through the European Fund for Strategic Investment and thanks to a more flexible and investment-friendly use of the fiscal rules. However, beyond the medium-term, a proper EMU investment facility could be developed as part of a proper Eurozone fiscal capacity, financed by own resources and borrowing.

Symmetric shock management, as long as not supported through a common budgetary capacity, can at least be improved in future through closer economic coordination built on a truly common economic policy strategy and, again, on a more flexible and counter-cyclical use of the fiscal rules.

Growing divergences among Eurozone members have a destabilising effect on the zone as such and members of the EMU cannot use the exchange rate as an adjustment mechanism. The promotion of structural convergence beyond what the EU budget already provides through its Structural and Cohesion Funds should be complemented by a fiscal instrument to address asymmetric shocks and on a social investment scheme to support structural convergence and implementation of progressive reforms. Both instruments should be subject to strong democratic oversight by the European Parliament.

2.5.1. A fiscal instrument to address asymmetric shocks

A countercyclical instrument, the importance of which was already clearly underlined in the Four Presidents' final report back in December 2012, would protect EMU Member States in worst-case scenarios and would provide immediate stability and confidence. It may take different forms enabling to partly insure participating countries against asymmetric shocks, without generating permanent fiscal transfers. Possible schemes of EMU Economic Insurance could provide either general or targeted budgetary support in cyclical downturns, for instance in order to maintain public investment levels in key areas. A relevant proposal favours a system of partial complements to national unemployment benefit systems in times of economic downturn (EMU Unemployment Insurance Scheme) as a way to avoid a pro-cyclical fiscal stance in the Member State(s) concerned during a certain time period.

Participating Member States would need to respect certain pre-requisites, as common budgetary resources are transferred to national budgets. However, these should be defined reasonably within the existing legislative framework, instead of creating yet new and potentially counter-productive obligations. Different financing forms can be considered for such a mechanism - including revenues from the FTT - leading to an own-resources system, as this would make the mechanism most effective in financial and in political terms. Participating Member States should also ensure that their own automatic stabilisation capacity as such is functioning properly.

This instrument should be focused on short-term countercyclical support and avoid net fiscal transfers between countries over the whole economic cycle, for instance through clawback mechanisms. Its use should be limited to exceptional circumstances, in which despite originally sound budgetary policy positions in the member countries concerned, automatic stabilisers do not prove sufficient to address a major economic shock.

A critical condition to develop this capacity is to improve the coordination of tax policies between the Eurozone Member States in order to eliminate downward tax competition which erodes national tax bases and reduces the overall tax collecting capacity of the Eurozone and of the EU. Member countries should agree on a Common Consolidated Corporate Tax Base (CCCTB) and on minimum tax rates as a basis for a common set of rules and practices in the field of taxation. Furthermore, tax rulings should be regulated so that the net tax rate could not fall under a given threshold, after applying the rulings.

The instrument would complement the role of the Banking Union (still to be completed by a deposit guarantee mechanism), of the European Stability Mechanism and of the ECB, while also restoring the credibility of the 'no bailout' clause. The more effective its capacity will be in the early stages of an economic shock, the less likely these other sources of financial support would be needed as the economic situation would be prevented from deteriorating early on.

2.5.2. A new scheme to boost structural convergence

Given the degree of divergence between Eurozone countries, a new scheme should be developed within the frame of the EU budget to boost structural convergence and potential growth by supporting a combination of targeted reforms and investments. This should also contribute to address the Eurozone periphery's social emergency. A very small embryo of such a scheme has in fact already been created in the form of the € 6 billion Youth Employment Initiative, helping to finance the Youth Guarantee's implementation in regions with high youth unemployment rates. This positive practice should be reinforced as well as broadened to other key areas, such as re-training plans for long-term unemployed, the modernisation of public administrations, or the improvement of national innovation systems. The experience with the YEI shows that such instruments need to be more flexible in order to be effective. This scheme should therefore be able to finance even basic public expenditure which every advanced economy vitally needs, for instance teachers' salaries or basic medical supplies.

CONCLUSION

The key to understand the outstanding reform needs for the Eurozone is to grasp the combined role of both cyclical and structural policy in achieving sustained prosperity and stability over time across the whole of the Eurozone, and to do so within a sustained dynamic of structural convergence. The EMU will neither emerge well from this crisis nor properly manage future shocks by relying essentially on a narrow agenda of structural reforms within fiscal constraints. Reforms are needed, but in a broad way - they must drive such structural convergence, as much as they must drive competitiveness. They should also be stimulated by financial incentives to support reforms in countries that are properly engaging to make them happen.

They have to be accompanied and supported by more effective cyclical policy management. The Eurozone must be endowed with some form of asymmetric shock absorber as a last resort, in order to secure ultimate stability and to build up utmost confidence in its resilience. However, this must happen without creating permanent transfer mechanisms between Member States and while securing the good functioning of national automatic stabilisers as the standard way to address asymmetric shocks.

Furthermore, the EMU needs to improve its common macroeconomic steering capacity over the longer run. This is particularly important in the field of investment and with regard to macroeconomic imbalances, which must address destabilising deficits and surpluses among Member States with equal force. Good macroeconomic policy should also include a proper understanding and use of the area's aggregate fiscal stance, in order to ensure proper demand management over economic cycles.

Economic cohesion, convergence and competitiveness cannot be achieved without a strong social dimension. The achievement of social progress within and among Euro member states through a well-organised process of structural convergence must become a guiding policy principle of the future EMU, including a decisive reduction of inequalities. This will make it more robust economically and politically. Common social standards and a common consolidated corporate tax base to prevent a social and a fiscal race-to-the-bottom between Eurozone and EU countries are fundamental in this respect. This must go hand-in-hand with deeper social dialogue on Eurozone issues.

Such stronger and re-balanced economic governance will need to be gradually built on a comprehensive fiscal capacity, financed by own resources and able to borrow, and on solid democratic legitimacy and control at European and at national levels. A new approach to debt management aiming at long-term sustainability should become part of this new configuration.

Beyond this internal set of challenges, the Eurozone also needs to address the overall global challenges, in order to manage its transition to a new growth model and to build a sound and stable international currency. As a currency zone within European Union, EMU must play its part in influencing global and geo-strategic balances, which requires a unified external representation in the key international institutions and fora.

While EMU reforms are necessary now, the political context does not allow for a complete and speedy implementation within the short run across the whole range of necessary changes. In certain areas, it is essential to formulate and uphold a high level of ambition, while accepting to move ahead gradually. In this respect, the possibilities provided by the existing Treaties to act within a clear Community framework should be exploited to the full, including a number of options to address needs of differentiated integration at EMU level, while remaining open to non-euro countries. Simplified and ordinary treaty change procedures shall be put at the end of the cycle of EMU reform.

The European Council must draw the full lessons from a crisis which is not yet resolved and which even endangered the very survival of the Eurozone, leaving a heavy economic, social and political legacy behind it. The future of EMU now requires a new sense of political vision and commitment, which the forthcoming joint Presidents' report should inspire.