

BULLETIN

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France and the European Stability Mechanism

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At the end of February, France was the first country in the European Union to launch a procedure for ratification of the Treaty Establishing the European Stability Mechanism. The houses of the French parliament adopted both this document as well as the European Council decision amending Article 136 of the Treaty on the Functioning of the EU. The debate that accompanied ratification showed the differences between the main political parties and lack of unanimity on the left. Also, the wider European context and the influence of the ongoing French presidential election campaign characterized the discussion.

Implications for France. The European Stability Mechanism (ESM) is one of the elements of the reform of economic governance in the EU, which aims to create a permanent instrument of financial support for the euro area.¹ It is expected to start functioning from July 1, subject to ratification by the Member States representing together at least 90% of its subscribed capital. The share of individual euro area countries in the financing of ESM whose total subscribed capital will amount to €700 billion (€80 billion will be paid-up capital) will be based on the key contributions to the capital of the ECB. This means that the contribution of France will amount to 20.3% of the total capital of the ESM and will constitute the second largest contribution after Germany's 27.1%. Thus, France's commitments under the mechanism reach €142 billion of which €16 billion the state will have to allocate, in five annual instalments, to the paid-up capital. According to the Eurostat opinion of 4 April 2011, the impact of the ESM on the deficit and debt ratios of Member States will be limited. However, contributions to ESM capital will impact France's debt if it must borrow those funds from the market. The main ruling body for the ESM will be a Board of Governors composed of the finance ministers of euro area countries, each with a right to cast votes. Each country will have a number of votes equivalent to the percentage of its financial contribution. This means that in the case of qualified majority voting, France will have veto power.

The Position of the Right and Centre. Although the idea of a European assistance mechanism for indebted countries in the euro area enjoys broad political support in France, in voting in the National Assembly and Senate only the deputies of the Union for a Popular Movement (UMP) and the New Centre (NC) endorsed the ratification. Simultaneously, the debate was an opportunity for a wider parliamentary discussion on the future of the European project. While pointing to the crucial role of France in the establishment of this mechanism, UMP argues that the treaty on the ESM represents a turning point in the history of European integration. According to the party, the balance between the enlargement and deepening of the EU has been disturbed since the '90s and is a serious shortcoming of the Union, especially in crisis situations. In the opinion of the UMP members, the solution to this problem is to create in Europe a "hard core" group of countries that quickly exceed successive stages of integration. The implementation of this approach is not possible through the concept of enhanced cooperation. On the one hand, this is because this approach implies conditions are too high, but on the other—giving excessive powers to countries outside the euro area—is inadequate to the problems of economic governance in the EU. The creation of the ESM on the basis of an international treaty is therefore a crucial moment for the UMP because it establishes a mechanism compatible with EU law and one that uses the expert capabilities of EU institutions but which is simultaneously separated from the EU's structures and functions on the basis

¹ See: A. Gostyńska, P. Tokarski, "European Stability Mechanism in the Making", *PISM Bulletin*, no. 40 (257), 22 April 2011.

of decisions taken by the finance ministers of euro area countries. The UMP deputies also supported (as expressed in the preamble to the treaty on the ESM) complementarity between the ESM and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (the so-called "Fiscal Compact") and the principle according to which from March 2013 financial assistance to a country under the ESM will depend on ratification of the Fiscal Compact. These solutions allow for, in the opinion of the right-wing deputies, a link between the principle of solidarity and stabilization, i.e., budgetary discipline and coordination.

For the centrists from NC that support the treaty, the ESM is the nucleus of the European Monetary Fund, which is just the first step in the process of economic recovery in Europe. They favour a strong deepening of integration and the creation of an "economic and fiscal federation." An expression of this concept would be to create "true economic government", extend the mandate of the EBC, and establish unified representation of the euro area in international financial institutions. The members of the NC do not favour the current trend of strengthening intergovernmental cooperation and moving the European Commission away from the decision-making process.

The Left's Position. The French left has not presented a coherent position on the ESM. At the request of presidential candidate François Hollande, the Socialist Party (PS) decided to abstain from voting. The solution was to reconcile the conflicting opinions and preserve the appearance of a uniform approach in the party. Some deputies, however, voted against the treaty. Moderates in the PS argued that in principle the ESM does not raise reservations. However, it was established too late, lacks sufficient financial capacity and does not have a banking license. Additionally, they found unacceptable the relationship between the treaty on the ESM and the Fiscal Compact, which Hollande wanted to renegotiate. PS does not negate the need for efficient mechanisms to manage countries' debts but instead stresses that in order to overcome the crisis it will be necessary to use other solutions, including greater mobilization of the ECB and the issuance of European bonds. PS deputies also pointed out that a vote against the treaty could be seen as putting distance between Germany and PS, and creating an impression of division that President Sarkozy could then take advantage of. Opponents of the ESM within the PS stressed that national voters need a clear message, and only a vote against the treaty would be conducive to renegotiating the Fiscal Compact and authenticating this demand. The extreme left, including presidential candidate Jean-Luc Mélenchon, pointed to the low transparency of the treaty negotiation process and the lack of public debate on the ESM. It also emphasized that the proposed reform of economic governance is the result of the victory of a German model "that focuses exclusively on budgetary discipline and financial sanctions". According to the extreme left and Mélenchon, ratification of the Fiscal Compact should be done by referendum. The Green Party also voted against the treaty, criticizing the strict conditionality related to ESM financial assistance, lack of democratic control over the functioning of the mechanism and the complete independence of the governance structures of the ESM.

Conclusions and Recommendations. The debate on the treaty on the ESM represents the end of the current political consensus in France on the need to rescue indebted euro area countries and is the beginning of a broader discussion of the Fiscal Compact. Quick ratification was meant to confirm France's attachment to the idea of European integration and financial stability in Europe. Nevertheless, the process pointed out the fundamental differences among the major French political parties and the uncertain future of economic governance reforms carried out in the EU, including, in particular, the Fiscal Compact. What will be decisive in this context will be the results of the presidential elections, scheduled for the end of April and the beginning of May, and the parliamentary elections planned in the middle of June. Regardless of these circumstances, there is a widely shared view in France that the current shape of the ESM is not complete and that there is a need to increase its lending capacity.

Although discussion about the ESM does not apply directly to countries outside the euro area but as a country committed to adopting the common currency, Poland should join in the debate on the future of the European project, including the euro area. It should also support the establishment of a reliable ESM, as one of the pillars of anti-crisis measures, because the stability of the euro area is in its interest. At the same time, Poland should emphasize the need to involve all the EU Member States as well as the EU institutions in the process of European integration, thus counteracting the tendency to create a "hard core" in Europe. Such an attitude will help create the foundations for future internal debate on the ratification of the ESM and the necessity to contribute capital. Moreover, Polish policy-makers should notice and take into account the differences existing in France and the variously decaying accents on both the approach to the issue of economic governance in Europe and the suggested model of European integration.