



BULLETIN

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France on Eurozone Integration: Collision Course for Poland

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The current work on the Economic and Monetary Union have only increased tensions between eurozone and non-eurozone countries as they now encroach upon the integrity of the internal market itself. France's readiness for EU differentiation and the introduction of a financial solidarity mechanism result from bilateral compromises between Paris and Berlin and have a strong potential for conflict with Poland. Rather than allowing this to jeopardise recent improvements in their bilateral relations, France and Poland must act early to allay the dash.

During the upcoming European Council summit in June 2013, governments are supposed to agree on further coordination of national reforms, the social dimension, so called contracts for competitiveness and growth as well as an underlying solidarity mechanism. The Commission is preparing proposals and President of the European Council Herman Van Rompuy is leading the search for compromise. Ambitious solutions are not expected due to Germany's autumn elections however, recent events in Cyprus might make EU decision-makers act more rapidly. The summit may, however, provide a reference point for potential long-term changes in the EMU architecture. From the perspective of the non-eurozone countries it is important to engage actively in this debate, particularly since the integrity of the internal market itself may be undermined by proposals on the social dimension of the eurozone. France is the principal advocate of this agenda.

French Standpoint. According to the French concept of "solidarity integration," the integration of the eurozone must involve burden-sharing between Member States in terms of the economic imbalances posed by asymmetric shocks. Because the introduction of eurobonds which would enable the mutualisation of debts is strongly opposed by Germany, however, France is currently advocating financial schemes to reward struggling countries that agree to contractual arrangements. Such deals make the receipt of financial support contingent upon performance in reforms. In the long term, France opts for the creation of an ambitious eurozone budget that would be debated at the EU level after the 2014 European Parliament elections.

Any solidarity mechanisms should primarily fulfil a transfer function and finance investment projects in infrastructure, transport, research, new technologies, energy transition and renewable energies, ecology and youth employment. In terms of financial resources, France has only indicated the financial transaction tax as a potential source. The creation of transfer mechanisms directed at troubled eurozone countries is of crucial importance for France due to its close economic links and trade orientation towards southern Member States (in 2011, Italy and Spain were among the top five French export and import countries). Moreover for Paris, itself facing economic problems and extremely low approval ratings for President François Hollande of around 30%, any decision on additional funds at the EU level would be well received domestically.

While promoting solidarity mechanisms, France must go for compromises with Germany in terms of strengthening the oversight and coordination of economic reforms. In principle, Paris agrees that all major economic policy reforms should be discussed ex-ante (Article 11 of the Fiscal Compact) and France has been willing to discuss the harmonisation of taxes and coordination of social reforms. In reality, Paris is resistant to such ideas. France, which is not keeping fully its promise to discipline its public finances, would likely avoid any real further fiscal consolidation at the EU level. Moreover any attempt to strengthen the EU's coordination and oversight of this field would meet

with resistance from those in the ruling Socialist Party and radical left parties who voted against or abstained from ratification of the Fiscal Compact in October 2012.

The governing consensus in France foresees a stronger social dimension based on enhanced cooperation, and as part of the process of deepening the internal market. Paris argues that this is needed in order to make prosperous countries stimulate domestic demand through higher wages and lower tax burdens. In February, Germany and France presented a common paper highlighting four areas to focus on: youth unemployment; the evolution of the labour market; protection of workers; and, the social governance of Europe. The paper foresees support for an EU mobility scheme first for jobs assisted by EU aid (housing benefits); creating an EU apprentice status; better recognition of professional qualifications of employees and a dialogue on a minimum monthly salary defined at a national level (involving the mechanism to set the minimum).

In all this, France opts for a differentiated Union and enhanced cooperation. Such calls are traditional and enjoy cross-party consensus. In concrete terms they involve, firstly, a stronger role for the eurogroup in its role as “eurozone government.” The mandate of its president should be enlarged and strengthened by the creation of a larger secretariat and monthly summits at the level of heads of state. Secondly, the parliamentary angle of the eurozone should be boosted. In its resolution of November 2012, the French National Assembly opted for the creation of an Interparliamentary Conference (Article 13 FC) consisting of the European Parliament and national assemblies. In its twice-yearly plenaries, this conference would discuss the consistency of national reforms before the Council adopts its recommendations on stability programs and reform for each Member State and would debate the broad economic policy guidelines for the following year. This conference would be supported by a special committee of national parliamentarians and MEPs from the eurozone.

Conclusions for Poland. Such integration might lead to an increase in macroeconomic and political imbalances between eurozone and non-eurozone Member States as well as threaten the integrity of the internal market. Even though EMU development is discussed at the EU level by all Member States, it is a German-weighted Berlin-Paris tandem that continues to dominate the discussion, despite Hollande’s commitment to make it more inclusive. This was partly counterbalanced in March 2013 when the Visegrad group summit was held with the participation of Germany and France. Yet, both countries continue to cooperate closely behind closed doors. The Franco-German expert group has been working on eurozone issues since autumn 2012 and will issue common proposals on the eve of the June summit. In relation to the social dimension of EMU, common proposals were already presented in February.

As the biggest non-eurozone country from the cohort of new Member States, and one with ambitions to introduce the euro, Warsaw should be more fully involved in such discussions. The ideal opportunity to do so would be the Weimar Triangle summit to be held in Paris in May and the planned consultation at the level of ministers of European Affairs involving targeted debate on the future of the EMU. Similarly, bilateral Franco-Polish relations at the operational level could usefully be strengthened in relation to the EU’s economic agenda. In terms of EMU’s future, both countries can discuss various potential solidarity mechanisms. For Poles, it would be extremely important to ensure the complementarity of the planned eurozone solidarity mechanism with the current EU budget scope so as to avoid overlap.

The contractual arrangements concerning support-for-reform would be open to non-eurozone countries, and this is an area of clear shared concern. By contrast, the issue of deeper eurozone governance might be a source of antagonism, as Poland usually backs a strengthened role for EU institutions. This potential for conflict pertains also in the social dimension of the EMU, as both countries have a different social security set up. It would obviously be sensible for both sides to exchange their views at an early stage in order to ensure compromise. In earlier efforts, for instance, both countries presented a clear opinion on the parliamentary angle of the EMU and can arrive at some common points in this respect. As President Hollande is open to the involvement of non-eurozone countries in new architecture schemes, such early debates should be possible.