How can the framework be improved to ensure sustainable public finances in all Member States and to help eliminate existing macroeconomic imbalances and avoid new ones arising?

The European economic and financial architecture should consistently comply with the basic principles for a federal network of states, as implemented, among others, in the United States of America (USA) or Switzerland.

In a federal federation of states, the Member States have the right and the duty to regulate their internal affairs themselves; this also applies to economic, financial and social policy. In return, Member States must bear full responsibility for the content, costs and results of their policy decisions. In addition to democratic choice, parliamentary budget law is the essence of democratic legitimacy of political decisions. The approval of the democratically elected parliament in the government's draft budget re-legitimises its political action every year and includes the approval of the financing of the state budget by means of taxes, levies, loans and other sources of finance. This entails liability for the loans taken out in the sense of a burden on future generations and parliamentary majorities and a pre-burden of future government revenues. The democratic and economic principle of democratic decision-making, decision-making costs, decision-making benefits and liability for the consequences of decisions and risks in the future is linked to parliamentary budget decisions and must be clearly anchored for all the political competences, tasks and decisions of the Member States.

This clear division of powers in terms of political tasks and their financing between the Member States themselves and them and the Union includes the so-called “No-Bail-Out-principle”. That principle must therefore be strengthened in a future economic and financial architecture. Moreover, it is a prerequisite for the early warning function of capital markets in the form of rising interest rates in the event of doubts about the economic viability of political decisions, budgets and sovereign debt. Only the interaction of clear division of competences and tasks between Member States and the Union, democratic legitimacy and liability for policy decisions and the early warning function of capital markets creates the necessary incentives for sustainable public finances, forward-looking economic, financial and social policies and thus for the elimination of macroeconomic imbalances. The importance of the “No-Bail-Out-principle” is also underlined by the fact that it is consistently implemented in the USA and Switzerland between federal states and Member States as well as between Member States and the local areas. State bankruptcies in California and Puerto Rico prove this, as well as many other examples.

Macroeconomic imbalances cannot be eliminated by reducing the global and European competitiveness of particularly competitive Member States, for example the Netherlands or the Federal Republic of Germany; this would only weaken the competitiveness of the whole European Union and all Member States which violates the rules of the Lisbon Agenda. Macroeconomic imbalances must be tackled by strengthening the competitiveness of Member States with competitive deficits. In this respect, a high trade surplus of the Federal Republic of Germany in the internal market is in particular an indication of competition deficits of other Member States and a need for macroeconomic action in these Member States. The incentives for a corresponding strengthening of competitiveness and thus the safeguarding of growth, prosperity and future tax revenues are tasks of the affected Member States in accordance to the democratic and political principle of interconnection. Therefor the European economic and financial architecture should be clarified and strengthened as mentioned above. Particularly the “No-Bail-Out-principle” must be clearly anchored in the future and implemented in a legally and politically practicable manner. The contribution to the debate contains relevant proposals on other issues.

The outlined basic principles of a sustainable economic and financial architecture do not rule out a stronger role for the European Union – especially the Commission– with clearly defined tasks, sustainable and constitutionally secured financing of these tasks and appropriate instruments. The contribution to the debate also contains relevant proposals on other issues. At the heart of these proposals is a strengthening of the European Semester by linking the European Semester with the financing of Member States' projects from the Commission's budget, especially in the areas of structural, infrastructure, innovational and research policy. With this objective in mind, the Commission's budget should be linked to objectives and programmes clearly defined by the Member States in the context of the European Semester with measurable target criteria. The results should be reviewed annually in the European Semester. This would thus provide a strong impetus to achieve sustainable fiscal policies in all Member States and effectively combat macroeconomic imbalances.

How to ensure responsible and sustainable fiscal policies that safeguard long-term sustainability, while allowing for short-term stabilisation?

The future economic and financial architecture should concretise the requirement of Directive 2011/85/EU, point 16, to establish numerical fiscal rules in all Member States in a similar way as has been done in the Federal Republic of Germany with Articles 110 to 115 of the Basic Law, in particular Article 115(2) of the Basic Law, in relation to the states. As a result, all federal states in Germany have methodically introduced comparable numerical fiscal rules.

Within the framework of a consistent methodological guideline, all Member States of the European Union should include numerical fiscal rules in their budgetary constitutions, which, in addition to balancing the budget, also include a judicial and externally verifiable numerical limit on borrowing. The methodological requirement for a numerical fiscal rule, similar to the regulation of Article 115(2) of the Basic Law, should reflect the aspects of long-term security of the stability of fiscal policy as well as the short-term possibility of stabilisation in macroeconomic and other crisis situations. The methodological requirement for all Member States could be based on the regulation in Sections 27 to 29 of the Hamburg State Budget Regulations (LHO Hamburg) and could extend this provision to include the financing of investments. The methodological requirement would thus build on the Commission's accounting in accordance with the International Public Sector Accounting Standards (IPSAS) and thus strengthen the Commission's initiative to introduce European Public Sector Accounting Standards (EPSAS). On the basis of ‘accrual accounting’ according to EPSAS, a numerical, judicial and externally verifiable fiscal rule based on EPSAS could limit the borrowings of the Member States and the Union to the financing of capital expenditure (net investment), i.e.to the increase in fixed assets resulting from investment activity.

Such a requirement for a numerical fiscal rule would ensure the long-term stability of fiscal policy by allowing debt (future burdens) only for future-useful expenditure (investments). This will, on the one hand, maintain or strengthen the scope for investment in national budgets, and, on the other hand, introduce a numerical, judicial and externally verifiable debt limitation equal to the fixed assets defined on the basis of EPSAS/IPSAS.

This system of borrowing in the future should be accompanied by a governance of the total debt of national budgets, based on the Maastricht criteria, including the old debt from the period before the new debt ceiling was established. Within the framework of the European Semester, paths could then be defined in the normal economic situation in order to bring the indebtedness and fiscal policies of the Member States as a whole into line with the Maastricht criteria.

In economic or other crisis situations, this provision could be supplemented by the possibility of borrowing additional loans for crisis management, which are subject to a clear, legally defined and time-limited repayment obligation, as in Article 115 paragraph 2 GG or Section 27 paragraph 3(3) of the LHO-Hamburg.

The numerical fiscal rule outlined would ensure long-term stability through clear rules for government borrowing in all Member States, while providing the necessary flexibility to deal with cyclical and other emergencies. The possibility of financing net investment through credit would also support the elimination of economic imbalances. Through that the long-term competitiveness of Member States would be strengthened and would promote their tax return and financial stability.

What is the appropriate role for the EU surveillance framework in incentivising Member States to undertake key reforms and investments needed to help tackle today and tomorrow's economic, social, and environmental challenges while preserving safeguards against risks to debt sustainablitity?

The European Semester should be supplemented by binding components, thereby significantly strengthening its impact on the Member States. The binding component should be created through the Commission's budget by bindingly aligning budget funds for structural, infrastructural, innovative and research promotion with measurable criteria that are reviewed annually in the European Semester. The Commission's budget will then only be allocated if it can be demonstrated in the European Semester which contribution the planned projects and programmes will make to achieving the target criteria agreed in the European Semester. The achievement of the objectives and the effectiveness of the projects and programmes can then be reviewed annually on the basis of the measurable criteria. The orientation of projects and programmes, as well as the complementary economic, financial and social policies of the Member States, can also be reviewed annually in the European Semester and, if necessary, readjusted. In the event of failure to achieve the objects or disagreement between the Commission and the Member State, payments could be suspended until a correction of the policy orientation and the specific program and projects has been agreed upon.

In this way, the European Semester would be sustainably strengthened and become the core mechanism for the economic integration of Europe, the elimination of macroeconomic imbalances, the strengthening of the global competitiveness of the Member States and Europe, and for the implementation of the political goals of the Council and Parliament. The prerequisite would be a uniform framework of target criteria for the European Semester, based on the political objectives of the Council and Parliament and geared to sustainability criteria. This framework of target criteria could, for example, be based on the political goals of the Council and Parliament in line with the United Nations Sustainable Development Goals (SDGs). Within this framework, the Commission could then define the individual goals for each Member State with in the European Semester. These individual objectives will then be followed by programmes and projects funded under the European Semester from the Commission's budget. The economic integration of Europe, the elimination of macroeconomic imbalances and the strengthening of the global competitiveness of Member States and Europe would be key objectives within the framework of this political goal orientation of the European Semester.

According to the priorities of the Council and Parliament, these core objectives could be supplemented by objectives along the SDGs in the dimensions of sustainability (ecology, economy, social affairs). In this way, in addition to economic, financial and social policy objectives such as growth, budget balance or reduction of unemployment, innovation goals such as digitisation or ecological goals such as CO2 reduction can also be taken into account.

The exact design of such a list of objectives and criteria is described by answering other questions.

With this aim in mind, the European Semester should, in addition to the annual submission of the Member States' planning data on their economic, financial, budgetary and social policy objectives, also be supplemented by a component of accounting based on the European Public Sector Accounting Standards (EPSAS). As part of this accounting, each Member State should submit, in addition to its EPSAS annual financial statements, an annual report on the achievement of the agreed objectives from the European Semester and a sustainability report on the three sustainability dimensions of ecology, economy and social affairs along the SDGs. EPSAS annual accounts, annual and sustainability reports would then also establish the link between the European Semester and European accounting with the numerical fiscal rules to be defined by all Member States, which were described in more detail in the answer to other questions.

How can one simplify the EU framework and improve the transparency of its implementation?

The transparency of the economic and financial architecture can be improved by a clear and transparent contractual arrangement with implementing regulations (e.g. directives and regulations). To this end, the various treaty provisions should be summarized in a chapter on economic and financial architecture. In a clear hierarchy of norms, the constitutional foundations (e.g. budget balance, debt rules, competences and institutions) should be brought together in the treaties and harmonised with a uniform methodological approach, as it can be derived from the answers to the other questions. The implementing regulations should refer to these treaty bases unambiguously and follow the basic methodological decisions.

In the context of the implementing regulations, particular importance should be assigned to the principles of subsidiarity and transparency. Procedural provisions should only be established in agreement with the Council, Parliament and Member States. In the field of economic, financial and social policy, the Commission should limit itself to essential tasks for coordinating the Member States (e.g. European infrastructure, competence and research clusters), for the integration of the economic and currency area and for increasing competitiveness and reducing macroeconomic imbalances. The budgetary resources and thus the programmes and projects supported by the EU should focus on these tasks and competences of the Commission.

The coordination, agreement and monitoring of economic, financial and social policy should be concentrated within the European Semester and ensure joint action by the Commission and all Member States on the basis of annually agreed objectives. As few transparent target criteria as possible should therefore be used in the European Semester. The target criteria could be based on a catalogue of indicators (sustainability scorecard) along the three sustainability dimensions (economy, ecology, social affairs) and be limited to a few indicators (e.g. 5 indicators per dimension) in order to increase transparency and the effect of incentives. This could look as follows:

- Economy: Debt ratio (Maastricht), GDP growth rate, IPSAS balance sheet adjustment, current account balance, ...
- Social: GDP per capita, unemployment rate, poverty rate, graduate rate, ...
- Ecology: CO_2 consumption, land consumption, share of fossil energies, area share of protected territories, ...

On the basis of the outlined system and target criteria, the European Semester would be a transparent and credible assessment for the economic, financial and social policies of the Member States. From this assessment, the objectives, programmes and projects could then be derived, each with their own target and result criteria, which would be financed with funds from the Commission's budget in order to improve the achievement of objectives. In this way, the use of the Commission's budget resources would also follow transparent criteria, making the success verifiable. The annual European Semester could review and readjust the achievement of objectives on an annual basis and thereby annually review and optimise the programmes and projects financed by the Commission budget in a continuous process of improvement.

In the strengthened European Semester outlined above, the procedures for safeguarding and implementing the Stability and Growth Pact (SGP) and the procedure in the event of macroeconomic imbalances (MIP) should also be fully integrated in order to improve transparency.

How can surveillance focus on the Member States with more pressing policy challenges and ensure quality dialogue and engagement?

The system described with respect to the other questions, consisting of strong constitutional rules, an effective steering mechanism via the European Semester and a transparent and effective use of the Commission's budget resources should be combined with clear and strong constitutional rules for crisis situations in individual Member States. The focus here should lie on credibly strengthening the no bail-out principle. In federal states such as the USA or Switzerland, regulations on state bankruptcy particularly contribute to this. Regulations on national bankruptcy should not to punish affected states, but help minimise social hardship and economic consequences of over-indebtedness in a rule-based system. Regulations on national bankruptcy therefore not only credibly strengthen the no bail-out principle, but also contribute to improving the ability of the international community to react in crisis situations and to minimising the economic and social consequences for the affected population.

Rules for a state bankruptcy should therefore not only transparently regulate a so-called haircut in the sense of a debt cut or debt rescheduling, but also consider the social consequences for the population in the time of a crisis and economic reconstruction. Such rules could be based on the existing system of the European Stabilisation Mechanism (ESM) and build on preliminary work by the International Monetary Fund (Geithner/Gianviti (2002), The Design of the Sovereign Debt Restructuring Mechanism-Further Considerations), the German Council of Economic Experts (2016), A Mechanism to Regulate Sovereign Debt Restructuring in the Euro Area) and the Eberbacher Kreis im Forum Atzelsberg (Discussion papers Eberbacher Kreis im Forum Atzelsberg (2010 & 2011), http://www. forum-atzelsberg.de/calendar.html).

On this basis, a two-stage mechanism should be established, in the first stage of which the established procedures and mechanisms of the ESM should take effect (stabilisation process), should a Member State encounter problems in refinancing its public spending on the capital market. If a Member State cannot solve such problems within five years with the support of the ESM and the Commission, the second stage of the procedure should be compulsory (restructuring process). In the second stage, mandatory elements such as a haircut (debt reduction or debt rescheduling measures), social transfer services for the affected population and sustainable investments for an economic reconstruction programme based on pre-defined rules should be transparently interlinked.

The two-stage procedure outlined for crisis management (stabilisation process) and state bankruptcy (restructuring process) should be linked in a transparent escalation process with the assessments and mechanisms for strengthening the European Semester outlined in relation to other questions. According to this model, the economic, financial and social policies of the member state and, in particular, the budgetary resources of the European Commission would be used long before a national crisis occurs in the framework of the European Semester so an identifiable crisis can be averted. No later than at the first stage of the escalation mechanism (stabilisation process), all measures as well as all national and European funds from the European Semester should then be concentrated on crisis management. This could also help to avoid that individual Member States 'save themselves to the bone' in crises, because the European funds from the ESM and from the Commission's budget for sustainable investments can be used to strengthen competitiveness and reduce macroeconomic imbalances. The second stage of the escalation mechanism then serves exclusively for restructuring.

The mechanism outlined for a two-stage escalation process in the event of a crisis and eventually a national bankruptcy of Member States, according to credible and transparent rules, should also include the possibility for members of the eurozone to temporarily withdraw from the currency Euro, with the help of elements of a national parallel currency (alike California's promissory notes during the national bankruptcy there), so that macroeconomic imbalances do not have to be resolved solely through internal deflation of wages and prices in the affected Member States (see, among others, Sinn (2016), "Der schwarze Juni"). In view of the still considerable differences in productivity between the member states and partly considerable competition deficits, the reduction of the latter via internal deflation has resulted in excessively high social and macroeconomic subsidiary costs, both for the population affected by the deflation policy and for the euro zone and the entire European economic and social area as a whole. The problems in overcoming the crisis in Greece and with the stabilisation of the inflation rate in the eurozone by the European Central Bank (ECB) are borne out by data and experience from the last decade.

How can the framework ensure effective enforcement? What should be the role of pecuniary sanctions, reputational costs and positive incentives?

Financial sanctions are dysfunctional in a system of intergovernmental governance of democratically sovereign states. Not only do they lead to an escalation of political processes through nationalism and populism, they are also economically dysfunctional because they counteract the goals of strengthening competitiveness, minimizing social consequences and reducing macroeconomic imbalances. In a system of intergovernmental governance of democratically sovereign states, a system of financial and political incentives as well as effective escalation and assistance mechanisms should be used instead, as described with the European Semester, the national use of the Commission's budget funds within the framework of the European Semester, and the two-stage escalation procedure for crisis management and for state bankruptcy in reference to other questions.

As a result, a three-step incentive, escalation and support mechanism will develop, consisting of the European Semester, a stabilisation process supported by the ESM and a restructuring process in the event of national bankruptcy.

At the political level, such a three-stage procedure could be complemented by mandatory referendums or national elections during the transition from the first to the second stage (necessity and content of the stabilisation process) and during the transition from the second to the third stage (necessity and content of the restructuring process) so that strong political incentives for economic, financial and social policies with the aim of long-term sustainability and stability as well as strengthening competitiveness and reducing macroeconomic imbalances (see in this respect discussion papers Eberbacher Kreis im Forum Atzelsberg (2010 & 2011), http://www.forum-atzelsberg.de/calendar.html) can be provided. A democratic legitimisation of the escalation process in the given Member State would have strong stimulating effects on the orientation of economic, financial and social policy. Simultaneously, the democratic legitimation of the necessary measures could be strengthened sustainably.

Is there scope to strengthen national fiscal frameworks and improve their interaction with the EU fiscal framework?

The strengthening of national numerical fiscal rules and their methodological linkage to the European framework is one of the central tasks in the further development of the European economic and financial architecture. The central elements have already been described in relation to other questions and will therefore only be summarised briefly here.

On the basis of a credibly established no-bail-out principle, backed up by regulations for potential national bankruptcy, the Member States should strengthen their respective parliamentary budgetary law through numeric fiscal rules, which, in regard to ongoing loans, are based on the level of net investment and fixed assets in the balance sheet according to EPSAS/IPSAS in the annual budgets. In medium-term financial planning, in addition to these fiscal limits for the annual budget procedure, an adjustment path to the established Maastricht criteria should be introduced, which also has an eye on the old debts of the respective Member State. The numerical fiscal rules described above for annual budgets and medium-term fiscal planning should be supplemented by effective crisis reaction mechanisms in the event of economic crises or other emergencies, which constitutionally ensure that loans obtained for crisis management purposes must be repaid in a legally prescribed repayment path.

The rules outlined should be consistent with the future budgetary law for the Commission under Articles 310 and 311 TFEU by constitutionally establishing equivalent numerical fiscal rules there for the Commission. Furthermore, the numerical fiscal rules for Member States and the Commission as well as the rules on national bankruptcy of Member States should be interlinked by strengthening the European Semester, as described in the answers to other questions. The core aspect of strengthening the European Semester is to link the allocation of budgetary resources by the Commission with the European Semester and the there agreed objectives, programmes and projects.

The suggested constitutional and procedural rules should be supported by harmonising the accounting standards of the Member States and the Commission based on the future EPSAS, which are derived from the IPSAS. Eurostat's EPSAS project should thus be linked to the further development of the European economic and financial architecture and should in future be steered by the Commission's Budget Directorate in order to harmonise the rules on accounting and financial statistics in the Member States as an indispensable basis for the European semester.

How should the framework take into consideration the euro area dimension and the agenda towards deepening the Economic and Monetary Union?

The eurozone and its monetary architecture are strongly affected by the continuing development of the European economic and financial architecture, as can be seen from the detailed answers to other questions.

The establishment of a rule-based escalation mechanism up to a state bankruptcy requires the integration and further development of the European Stabilisation Mechanism (ESM), as can be concluded from answers to other questions. With this objective in mind, the ESM should be further developed into a European Monetary Fund (EMF), which complements the International Monetary Fund for member states of the European Economic, Monetary and Financial Area and takes over the technical execution of the escalation mechanism in the stabilisation and restructuring process that has been described on other questions. Consequently, the ESM/EMF would be a third strong institution for the European Economic and Monetary Area alongside the Commission and the European Central Bank (ECB).

The ECB would also be involved in the escalation mechanism outlined in relation to other questions, up to and including the case of national bankruptcy, especially in the context of a temporary eurozone withdrawal of a Member State if such a temporary eurozone withdrawal becomes necessary as part of the restructuring process. In this scenario, the ECB would oversee the issuance and management of national parallel currency instruments (e.g. government promissory notes or, in the case of a conversion of bank balances, bank deposits) by the respective national central bank. In such a case, the given National Central Bank should not withdraw from the Eurosystem of European Central Banks, but should remain a full member, as the restructuring process should only entail a temporary withdrawal of the euro. Remaining in the Eurosystem strengthens the prospect of re-entry via the European Exchange Rate Mechanism (ERM II) and avoids unnecessary tensions within the Eurosystem.

At the same time, the ECB's banking supervision should play a role in the further development of the European Banking Union. With regard to the rules for an escalation mechanism up to state bankruptcy, the completion of the European Banking Union gains particular importance, because one prerequisite is the disentanglement of dependencies between commercial banks and sovereign states. In this context, the ECB's focus on monetary stability and the independence of the ECB from fiscal and economic policy interests should be reinforced by essentially transferring banking supervision to the ESM, which has been evolved into an EMF. This would also ensure that the principle of responsibility, decision-making and liability would be respected, since the ESM/EMF would have to take over the recapitalisation of banks or member states in the event of a financial crisis. In this context, it should be assured that the incentives for state financing by banks of the member states are significantly minimized, for example by requiring state loans to be backed by adequate equity buffers.

Finally, an unemployment reinsurance scheme should be integrated into the ESM/EMF in order to bolster the national unemployment insurance systems, including a short-time working allowance based on German standards, in the event of a crisis and upon application of the escalation mechanism up to national bankruptcy.

Within the context of the European Semester, how can the SGP and the MIP interact and work better together, so as to improve economic policy coordination among Member States?

The measures and procedures for strengthening the European Semester have already been described in detail in the answers to other questions. The measures and procedures presented there are sufficient to also significantly improve the interaction between the Stability and Growth Pact (SGP) and the procedure in the event of macroeconomic imbalances (MIP). Both aspects and procedures should merge into a fortified European Semester.