

EIN NEWSLETTER

EVENTS OF THE NETWORK

9 June 2010. EIN Breakfast meeting. *“The Future of NATO”*

9 June 2010. 15-18. EIN Seminar. *“Religions, social change and social crisis in Europe”*

9 June 2010. EIN Board Meeting.

21-23 June 2010. EIN Seminar in Washington with US think tanks *“New Horizons for Transatlantic Cooperation after the Lisbon Treaty”*

EIN RESEARCH AND DEBATES:

*Discussion with Michael Wohlgemut, Walter Eucken Institute, Freiburg (see his paper *Avoiding the Debt Trap, CES, 2009*) and Fernando Navarrete, FAES, Spain (see his presentation at the *Europe 2020 hearing on the EIN website*)*

Stability in period of crisis is not created by new ideas being floated around and the invention of brand-new mechanisms, such as the EMF. The European ideas fail on the best economic governance possible ends playing against the Euro. One should first seek stability and seriousness in the implementation of the existing mechanisms. To a large extent, the current Euro crisis is the consequence of the failure in the implementation of two instruments designed to work together: **the Lisbon Agenda** supposed to provide more flexible markets and constant structural reforms (micro-economic agenda) and **the Euro** supposed to secure a prudent fiscal behaviour in the framework of the close economic coordination organized by the Stability Pact (macro-economic agenda). Instead, we had a total failure in the implementation of the Lisbon Agenda because of the open method

of coordination **and** the inability to enforce the Stability Pact to core countries, with then no real discipline enforced since 2004 and no binding fiscal rules. The time is not to reinvent the wheel but to rejuvenate existing mechanisms and reintegrate them in one agenda

1) European economic governance is enough.

One does not need to establish an economic government in the form of a national government. What would be its legal basis? Already “committee like decisions” - as those of the Eurogroup since 2004 - have proven less effective than just fulfilled commitments, according to many economists.

By contrast, the European economic governance may be defined as increased convergence on good economic practices (with incentives and sanctions).

Such economic governance **should be discussed in the framework of the Europe 2020 Strategy**, that is **the** comprehensive strategy for long-term competitiveness following the Lisbon Agenda. Why?

- a) Boosting economic growth is the best way to overcome growing levels of public debt. Growth-enhancing structural reforms are the focus of the Europe 2020
- b) No (new) budgetary rule, even necessary, will be enough to restart productivity gains in countries where global competitiveness has declined (France, Spain, Italy,...) with a mid-term risk for the Eurozone as a whole.
- c) Creating a more resilient monetary union means, according to the theory, a union in

which every country is better able to resist an asymmetric shock, because it has a diversified economy, easy access to export markets (i.e. global competitiveness) and access to a large foreign employment market. Therefore **the regional policies and the Single market policies** - whose next steps are outlined by the Monti Report - **should be fully integrated in the Europe 2020 Agenda.**

d) The Europe 2020 initiative provides a unique opportunity to review rapidly, in the framework of existing mechanisms, **national plans for structural reforms** and investments, and then to back them with the appropriate European funding (or suspend such funding if those plans are not convincing).

e) The Lamassoure's working document (May 2010) proposed to **address immediately the issue of the funding of the Europe 2020.**

2) The Eurozone governance: back to the bases.

Crisis management mechanisms should not be transformed into permanent safety nets. Over the long-run, the Eurozone economic governance should respect key principles on which the Euro was built:

- the independence of the ECB ;
- the initial purpose of the Euro : spreading monetary, financial and public sector stability to all members of the club, having and keeping Euro as a currency should be a demanding and selective venture ;
- close economic coordination in the framework of a revitalized Stability and Growth Pact ;
- the cost of non-prudent fiscal behaviour assumed by infringers : **no automatic participation in the Euro.**

3) Against the debt trap : the subsidiarity principle should apply.

As the major risk for the long-term stability of the Euro is the debt trap, **national strategies** to escape the threat have to be designed according to the specific situation of each of the member states :

- for most of EU States, higher taxes should not be a sustainable path to consolidation, since over-taxation is already quite near with a risk to go on slippery slope of the Laffer curve, where tax increase ends up in tax evasion and reduced growth ;
- lower public expenditures should be associated with a strategic shift from consumptive spending (welfare, defense and redistribution) to public investment (training, research) for the benefit of future generations
- reforms of social security system, as health care and pension reform, should be a priority.

Those decisive moves should come together also with additional long-term **“debt brakes”** also decided at national level:

- super-majority in legislatures in order to authorize public debt ;
- “golden rule” according to which the share of government outlay financed by the debt is equal to the share of investment in public capital ;
- constitutional amendments that require balanced budgets, as in Germany, those rules taking full effect in the future and after a transition phase.

The present brain-storming at European level may come out with very positive results if it remains focused on :

- the content of further economic (and social) convergence needed to boost growth ;

- the completion of the Single market ;
- the governance of the Europe 2020 process and its relation with existing European policies, including the budget ;
- the redefined conditionality for participation in the EMU ;
- the future governance of the Stability and Growth Pact.

Franck Debié,
EIN Policy Director

ON THE EIN WEBSITE

The Greek Crisis and its aftermath

Ross Walker, “Greece : what needs to be done? - Short-term financial support”, Food for Thought n° 2

Jacques Delpla, “Addressing the Greek Crisis and the Balance of Payments Crisis in the Mediterranean countries”, Food for Thought n°3

Related works from the EIN Network:

Fernando Fernandez (dir), Fernando Navarette (dir), The Reform of the International Financial System, Foreword by Jose Maria Aznar, Madrid, FAES, 2009

Michael Wohlgemuth, Avoiding the Debt Trap, Brussels, CES, 2009