



# **EuroVisions**

## **Growth versus Fiscal Consolidation**

Assessing the European Council of 1-2 March 2012

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## What has been at stake?

First, in face of risks of recession spreading across Europe, it is necessary to define the priorities of economic and social policies for next year in the framework of:

- the Europe 2020 Strategy
- the Euro Plus Pact
- the adopted “six pack” comprising a revised Stability and Growth Pact and a new macro-economic surveillance

These priorities and the Commission recommendations of 2011 should be reflected in the National Reform Programmes and the Stability and Convergence Programmes which Member States should define and start implementing in 2012 (according to the new procedure of the European Semester).

Second, in face of a systemic crisis of the euro-zone, it is necessary to pursue the reform of the Economic and Monetary Union with:

- further decisions on how to build a bazooka big enough to stabilize spreads and interest rates in general at a reasonable level ( by combining EFSF with ESM; by implicitly supporting ECB unconventional actions; Eurobonds remain in the shadow, in spite of the clear position by European Parliament, clear expectations by many governments, Green paper by European Commission, ..)
- and, as pre-condition to move in this direction, the signature of a new inter-governmental Treaty comprising a strong reduction of the fiscal margin of manoeuvre of governments (their last tool of macroeconomic stabilisation!) as well as vague embryos of economic coordination and euro-zone governance.

## The political game

The Euro-Zone Summit which was also planned for the 2<sup>nd</sup> March was cancelled some days before because Germany doesn't agree with combining EFSF and ESM, in spite of increasing pressure from many other MS (now including Netherlands and Finland), the European Parliament, the IMF, USA, China, Brazil and also the G-20 (see G-20 communiqué of 2 days before). Why is the German Government resisting to all this pressure? Because it:

- wants to consolidate Bundestag support to the Greek package
- waits for new committed reforms in Greece
- wants to keep pressure for reforms in Italy, Spain, Ireland, Portugal
- wants to assess impact of ECB large provision of liquidity
- last but not least, wants to keep pressure on France internal politics and possibly complications on the Treaty ratification in France and elsewhere (see the announcement of the Irish referendum on the new Treaty). It also expects these complications to be overcome by the combined pressure of the financial markets, access to EFSF/ESM support and the number 12 as the minimum necessary for the implementation of this Treaty.

All this means that, in spite of the cancellation of the euro-zone summit, the talks about the euro-zone issues will remain the central hidden agenda of this European Council.

In the preparation of this European Council, after a secret letter of Merkel and Sarkozy, the President of the EU Council has also received a letter of 12 Prime Ministers, led by Cameron and complemented by Monti with the title “a Plan for Growth in Europe”, reflecting the malaise with Sarkozy methods of leadership and the concern with growth. Nevertheless, the approach taken by this letter is a typical liberal one and overlooks the fact that, in the present circumstances, it is no longer possible to generalize growth in Europe without completing the Economic and Monetary Union.

In the meantime, PES leaders have sent an open letter to the European Council, calling for a shift towards growth and investment, making detailed proposals about new sources of financing which include a financial transaction tax and the Community budget, and presenting concrete proposals about redirecting the investment to green technologies and to job creation, particularly for young people.

### **Key issues for an assessment of the European Council of 1-2 March**

The final conclusions of the EU Council are reflecting some positive shifts regarding previous EU Councils:

- the need of a two-pronged approach: fiscal consolidation and growth
- an embryo of macroeconomic coordination according to more or less fiscal space
- a more comprehensive approach on taxation (FTT, low carbon, tax evasion)
- more impetus on financial reform (rating agencies, bonuses, capital requirements)
- requesting National Jobs Plans and an employment package
- first concern with investment (project bonds, avoid excessive deleveraging of credit)

Nevertheless, the most meaningful event in this European Council was the signature of a new Intergovernmental Treaty

## **Comments on the new Treaty on Stability, Coordination and Governance in the Economic and Monetary Union**

### **Political relevance**

A Treaty (even if only an inter-governmental agreement) is always a major political fact which cannot be downplayed. It defines a stronger common framework for national policies than common law can do, since a Treaty can only be changed if this is decided so by a new majority of governments in the European Council, which are also monitored by national parliaments. As this will depend on the outcome of successive national elections in the Member States, it will be particularly difficult to change Treaties.

### **Scope**

Too limited: ignores the fact that the solution for the euro-zone crisis requires not only fiscal discipline, but also coordination for growth and upward convergence as well as more solidarity in public debt management.

### **Consistency with Community law**

Several ambiguities will remain (ex: the role of the European Court or of the European Commission)

An inter-governmental Treaty circumvents the democratic process which should be based on a European Convention. This should take place if this new agreement is to be included in the Lisbon Treaty.

### **Fiscal discipline**

The new objective for fiscal policy (close to balance) and the few exceptions to be considered are limiting the possibilities of countercyclical policy as well as the margin for public investment and incentives for private investments.

This new objective should not be enshrined in the national constitutions, because this creates a counterproductive rigidity

### **Economic coordination**

Very poor content of this section when compared with the one on fiscal discipline. Nothing is said about support to investment and macro-economic coordination to foster growth (i.e. surplus countries should raise their internal demand).

It should become clear that convergence should not only be towards lower levels of deficit, debt or higher levels of competitiveness. It should also be about higher levels of growth, investment, jobs creation, social and environmental standards.

These should be the main purposes of the enhanced cooperation for the euro-zone.

### **Governance**

The democratic dimension is still weak. The only formation of the Council to be involved seems to be Ecofin. The role of the European Parliament is limited and the participation of its President in the euro-zone is still not ensured.

### **Final comment**

There is also a fundamental issue which is absent for a more balanced deal to reform the economic governance of the euro-zone: the partial mutualisation of the debt management via Eurobonds. The parallel Treaty on ESM is not addressing this issue in broader terms and is confined to create an Economic Monetary Fund.

For all these reasons this new Treaty defines a biased framework to reform the Economic and Monetary Union.

### **Remarks for the future**

Some central concerns should be drawn from the gap between this European Council's outcomes and the reality on the ground. Notably, it is important to put the central focus on job creation (particularly for young people) in order to call for:

- stronger means to support investment ( access to credit, structural funds, taxation, project bonds, Delors bonds and Eurobonds)
- a more pro-growth coordination of macro-economic policies, building on the new macro-economic surveillance, in order to expand demand
- swifter financial reform
- more balanced programmes for the assisted countries

Furthermore, regarding the implementation of the European Semester, it would be important to promote a more democratic discussion of the National Reform Programmes and the Stability and Convergence Programmes at European and National level over the next months.

Finally, regarding the Treaties to reform the Economic and Monetary Union, it would be important to call for an additional Act (or Protocol) of equal legal value comprising:

- a more precise economic coordination for growth,
- new European instruments to support investment,
- stronger means to support economic and social upward convergence
- and an additional mechanism to improve public debt management to be used by MS if necessary
- A stronger bank supervision and resolution
- a stronger role to be played the European and national parliaments in euro-zone governance

In fact, it is important to support this movement to complete the Economic and Monetary Union and the stronger coordination of fiscal, economic and social elements it entails, provided this is based on a democratic approach.

This should be the way to turn the euro-zone crisis into an opportunity for European integration and European prosperity.

Maria João Rodrigues has been a special advisor in the European Union institutions, working directly with Prime Ministers in the EU Presidencies and with European Commissioners. She was in the coordinating teams in charge of designing and implementing the European strategy for growth since 2000 and of negotiating the Lisbon Treaty in 2007.

She has also been involved in the preparation of several summits between the EU and its strategic partners such as China, Russia, Brazil and the USA. Finally, she has been member and chair of several high-level groups to prepare EU political initiatives. She is also professor of European economic policies in the Université Libre de Bruxelles and in the Lisbon University Institute.

Building on her experience of preparing meetings of the European Council for twelve years, she provides a special insight on the context, background and critical assessment of these meetings where the EU political direction is shaped. European politics need to be better understood and to become more relevant for European citizens. This is the purpose of these comments.