1. Conclusions and recommendations for the future of the euro

1.1 The EESC considers the establishment of the euro and Economic and Monetary Union (EMU) to be the most significant milestone in Europe's development. It was part of a strategic EU plan, framed within the vision inspired by the ECSC and the Treaty of Rome. It was a significant and courageous effort, a bid for the future, which had raised such high hopes that everybody believed that the strength of the single currency would overcome the continued resistance which had prevented the completion of EMU and total political union, as would have been required. The euro nevertheless remains the basis for all this.

1.2 We must however agree, a full twenty years down the line, that this is not the way things have turned out, possibly because the euro, throughout this period, was not subjected to any severe internal or external shocks, or possibly due to the lack of trust that persists between creditor and debtor countries in Europe. This in turn means lack of cohesion and trust vis-à-vis their governments. Thus everyone preferred to be lulled by the calm seas; it all seemed plain sailing, but it was a superficial calm. In fact, when the international economic and financial crisis struck, washing over the EU, it set alarm bells ringing and exposed the structural limitations and contradictions in EMU, depriving the euro of its propensity to attract. It was initially thought that all it would take to make EMU work was a set of 'accountancy' rules such as the stability pact, whereas the problem was not technical but economic and political.

1.3 The EESC recognises the importance of stability. Yet stability must not only concern prices or financial institutions, but also politics and social conditions. There is a legitimate public perception that they are paying the heaviest price for the crisis, that debt redemption is primarily being demanded of them rather than of the banks that caused the crisis, and that this is unjust. The EESC is convinced that austerity cannot be sustained politically for long. In fact, the line has already been crossed in some countries.

1.4 This is why the EESC believes that a single currency will be unsustainable unless we achieve convergence between the economic capacities of the euro area countries and improve overall competitiveness, objectives which require economic as well as political commitment. A little temporary maintenance is not enough. We therefore need to make a qualitative leap, bringing together not only the currency and the economy, but politics, sovereignty, people and the capacity for dialogue between European peoples. We need more political integration and less dirigisme and a social market economy to spread growth and employment and to restore perceptions of the euro as an advantage, and not the opposite.

1.5 This opinion makes it clear that the EESC’s proposals are proactive whereas the Commission's and Council's responses to the crisis have been and remain predominantly reactive. For example, the Treaty on Stability, Coordination and Governance stresses stability without proposing joint financial instruments for recovery and employment, even if the agreement on a single supervisory mechanism (SSM) is a significant step forward, albeit in the absence of a credible and practical roadmap for political union. Europe needs to go back to generating wealth in order to redistribute it fairly. Austerity cannot be imposed on its own.

1.6 The EESC is now calling, as it has done for a ‘reality check’ on the euro and Europe in order to save them, on their political and economic limitations, on profits and losses, on who is responsible for getting us into this situation. Swift action is required. There is no more time for rhetoric, deception and illusions. It is the only way to prevent the dissolution of Europe, which has been in decline for some time. It would therefore be better to avoid accusing those protesting against the sacrifices of populism. Europe must learn to listen without arrogance. It cannot continue to turn a deaf ear.
Recommendations for completing EMU: the missing connections

The economic connection

1.7 The EESC believes that the best way to complete EMU, avoid recession, reduce national debts and stabilise budgets is to reverse the principle currently underpinning the EU’s economic culture (stability for growth), and build on growth, not austerity, thereby making it the main objective, in order to facilitate a new pact for promoting (mutualising) growth, employment and stability, also by involving the social partners (growth for stability). The EESC is convinced of the following points:

i) recovery cannot be pursued exclusively through monetary policy (e.g. abundant money supply to the banking system and low interest rates) and fiscal measures (currently limited due to the need for fiscal consolidation in many countries). It also needs to be promoted through increased investment in alternative forms of energy, the environment and social investment, thereby generating demand for investment goods and services from the private sector that takes the needs of households into consideration;

ii) this can reduce current extremely high levels of unemployment and generate the fiscal revenues which can lower national debt and deficits;

iii) such investments should not only be financed through ‘tax and spend’ but also through bonds attracting excessive global savings that lack investment outlets, thereby supporting EU and global growth, which can be fuelled by returns from the financed projects rather than fiscal transfers between Member States;

iv) it should be a priority to enhance the financial viability of firms, and especially SMEs, many of which are currently threatened with extinction because they lack sufficient bank credit to ensure that they can purchase components and materials, partly because central banks require too many guarantees from banks that grant loans to SMEs;

v) immediate steps should be taken to promote public investment to facilitate growth, keeping such investment off the balance sheet by using ‘golden rules’ i.e. a system of common rules that also take into account the countries’ private indebtedness, while awaiting the Eurobonds (1).

1.8 Symmetrical policies are required to make the euro sustainable and reduce the differences between national economies through a solidarity-based plan that transfers investment resources to countries with weaker economies, through targeted projects, using fiscal displacement if necessary, and integrating the labour market and social policy. This means acting through symmetric adjustments: common funds to rescue failing banks, a European deposit insurance system, Union bonds, Eurobonds, common policies for reducing the EU’s external deficit, etc. (creating common compensation or adjustment funds).

1.9 An EU economic governing body should be established to go further than the current method of policy coordination, which has not delivered good results, transforming the Eurogroup into a body that reaches majority decisions, making it the voice of the euro. It is no longer sustainable to have monetary and banking union and to keep economic policies separate. In contrast, joint governance (as occurred in the case of the fiscal compact) at the macro and micro level (with the launch of an industrial compact) might steer economic and fiscal policy in the direction of growth, employment and social inclusion.

1.10 A common budget, needless to say with common rules, must be created for the euro area, integrating trade policy and the balance of payments, whereas today the differentials are significant. Fiscal consolidation must be completed by taking action vis-à-vis the structure of multipliers, to free up resources for jobs and growth, and launch reforms that can increase the productivity of the weaker countries (2).

1.10.1 What is required, in any case, is to reduce and/or dilute current austerity measures for the most indebted countries and to boost demand in creditor countries. Member States need to take simultaneous action on debt and structural reforms while the EU needs to promote growth through a solidarity-based plan designed to increase employment and social justice. You cannot add austerity to recession, as the EU is doing. Superimposing further debt reduction on the credit crunch is harming the economy.

The monetary and financial connection

1.11 This is why we need a system that can absorb the mistakes and weaknesses of individual countries to run alongside the reform process and reduce economic differences and imbalances between the euro area countries, including through monetary policy.

(1) OJ C 143, 22.5.2012, p. 10.

(2) OJ C 133, 9.5.2013, p. 44.
The ECB has also been adversely affected by the limitations to EMU. Under the Treaty it has had to apply a single, quasi-federal, monetary policy even though the countries' economies were and are different and there are serious imbalances between them. As has been said, these therefore required, and still require corrective EU measures. This would avoid overexposure and enable the ECB to take more effective and even-handed action to stabilise prices, reducing existing distortions and imbalances, which could call into question the very existence of the single currency if they persist, as demonstrated by the most recent phase of the sovereign debt crisis, which was only avoided by a measure decided by the ECB President. This is necessary to promote economic integration, which is lagging behind monetary integration, at least until the ECB's current lack of a mandate and the EU's political deficit are bridged.

The ECB's role is currently over-exposed. In order to fill its role better and under equal conditions it should have the same functions and mandate as the Fed, including that of lender of last resort, in order to reduce the differences in interest rates. It should therefore have a full mandate that would even allow it to act as a growth driver if necessary.

A major debate is ongoing between the central banks about the strategies to use to restart growth. It is the age-old debate on the austerity-growth balance, i.e. inflation/growth and growth/employment. We have only to consider that the Fed, in order to fulfil its mandate, of reducing unemployment by 6%, feeds USD 85 billion per month into the market (the Bank of England would also be prepared to apply a similar policy). This puts the ECB, which does not have a 'parent government' or a budget, in a weaker position than other central banks. This is a condition that also concerns control over relations between currencies. The EC should also exercise a responsibility for exchange rate policy, subject only to the Council's right, under the Treaty, to conclude formal agreements on an exchange rate system for the euro in relation to the currencies of third states.

Debt: another important aspect of EMU. On this issue, the EESC has already made a specific recommendation to take 60% of national debts out of the market in order to prevent the impact of market speculation on the euro area (3). It is clear that complete EMU and a common budget for the euro area would also make it possible to issue common bonds (needless to say, from within the common euro area budget).

With regard to the financial and banking system as a whole, the EESC believes that all aspects of the provisions laid down by the EU (4) must be completed within strictly required and necessarily short timeframes since these are among the most efficient instruments for completing EMU.

The political and institutional connection

The EESC believes that the future of the EU and its institutional underpinning need to move away from schemas based on the 'ideological model' - even if the 'federal' model seems the most appropriate. It seems more appropriate to focus on the functional and substantive issues to ensure the survival of the very idea of Europe; a Europe where people and solidarity are central to its primary objective, with the economy revolving around them and not the other way round. The time has now come to restart work on political, social and economic union. The Council's laudable but hesitant and inadequate effort seems very little indeed to us. We need to abandon egoism, the 'utopianism of interests', which seems to have pervaded Europe, in favour of solidarity. Austerity policies should be called off or mitigated in order to relieve hardship, and jobs and growth should be put back at the heart of its initiatives.

Convergence towards social and political union is needed to complete EMU and achieve the abovementioned recommendations. The decision-making process must become more democratic (majority voting) and transparent in order to achieve positive, less uneven, integration, and to manage sovereignty jointly, thereby reducing differences in the integration process. This would also give the EU one voice within international organisations.

New treaty: the EESC maintains that most of the economic recommendations set out in this opinion can be applied without amending the Treaty. Where necessary, countries that agree with these recommendations could act together on the basis of strengthened cooperation (as in the case of the fiscal compact), also in order to make faster progress and to avoid the risk of the EU's dissolution in the face of renewed external attacks and continued austerity policies. Another scenario for deeper integration might involve giving the next European Parliament a constituent mandate. This could be put to a referendum at the same time in all countries concerned.

The international connection

European events have international consequences and vice-versa. This is why more efficient international bodies with greater decision-making powers are needed to ensure greater global governance. In this sphere, the EU needs to have a single representation, at least for the euro area. In particular, the G20 should be able to set up an 'Economic and Social Committee' for international development, to take action through fiscal stimulus.
1.18 However, only a different, more cohesive and democratic, political framework, combined with better internal governance, will provide the EU with more efficient external governance, giving it one voice at the international level. This is particularly true with respect to the relationship between currencies, in order to avoid harming the EU economy, and the relationship between world economies, especially with developing countries.

1.19 Briefly, these are the four recommendations for completing the euro framework:

i) EU economic governance (for growth, employment and economic and social cohesion); common budget for the euro area and reduction of economic asymmetries between the euro countries;

ii) Monetary and financial governance: stronger ECB mandate; completion of the internal market for the financial and banking sector;

iii) Political and social union;

iv) Stronger international role for the EU and global governance.

2. Introduction

2.1 The EU is going through a particularly difficult and dangerous period which could have negative consequences that go well beyond the economic and social ones already with us. This own-initiative opinion addresses a range of issues including the need to respect earlier Treaty commitments to economic and social cohesion for growth and jobs, to promote a new economic and monetary policy for growth and employment, more proactive innovation policies, a European Venture Capital Fund for small and medium enterprises, and finally to work for the future of the EU.

2.2 We are dealing with major economic interests, even in the EU, which instead of converging, are clashing. The euro is in no way responsible for what is happening. It is a currency which has long been left to take care of itself and is still waiting for the ‘contenders’ (the governments) to decide what to do.

2.3 The EESC has a duty to respond to these challenges in straightforward and clear language, and with farsightedness, knowing what is at stake and the level of confrontation.

without hiding the facts. Through this opinion the EESC wishes to contribute actively, and unreservedly, to completing EMU and overcoming the crisis, in the interests of workers, businesses and citizens in the EU, especially the euro area, which is experiencing the ongoing crisis very keenly.

3. The Maastricht Treaty: monetary policy and cohesion

3.1 Monetary union

3.1.1 The adoption of the single currency would have been optimum for countries that are exposed to symmetric shocks or that have mechanisms to absorb asymmetric shocks. Empirical studies show that the likelihood of asymmetric shocks is higher in Europe than in the USA. Naturally, the ECB’s common monetary policy, whose main objective is price stability in the monetary union, cannot react to asymmetric shocks in individual euro area countries. For this reason, another, sufficiently effective, mechanism is needed to cope with these shocks. The lower the mobility of production factors, openness of national economies, synchronisation of economic cycles, diversification of production and financial integration, and the lower the level of mutual trade, the more rigid the labour market and higher the inflationary differentials between Member States’ economies, the less the ECB common monetary policy is for euro area members. The worse the adaptive mechanisms perform in alleviating the adverse effects of asymmetric shocks (price and wage flexibility, mobility of labour and capital across borders of Member States, or fiscal federalism), the harder it will be for the country to deal with the loss of its own monetary policy.

3.1.2 EMU is possibly the main pillar of the Maastricht Treaty but not the only one. The reason which inspired it, after the Berlin Wall came down, was mainly political, as well as economic. Many countries looked on with surprise and indifference as the new framework took shape, even in the face of the almost immediate absorption of East Germany and the parity rating (1 = 1) guaranteed by the Deutsche Bundesbank for the Deutsche Mark and the East German Mark. Preference was given to delaying the decision to complete EMU, raising common, but ultimately vain, expectations that monetary union would bring political union in its wake and that the euro would give impetus to a federal Europe, but this was not what happened.

3.1.3 Union, in addition to giving the euro coverage and a single voice, should have provided everything that the euro lacked. It was thought, however, that a few rules, such as the stability pact, with arbitrary parameters, would be enough to make it work, self-referentiality was deemed infallible, but did not work as expected. Even the ECB’s remit is one-way and more limited than that of other central banks. These contradictions were brought to a head by the financial crisis, which the EU was seriously slow to notice, and then the sovereign debt, which deprived the euro of the aura and miraculous powers it was represented as having when it was created. This reduced its propensity to attract to the point that it is now perceived as a threat, or as an insidious justification of austerity policies.
3.2 This policy is jeopardising social and economic cohesion, another pillar of the Single Act, of the Maastricht Treaty, which sets high employment and living standards as an EU objective, an objective which the ongoing crisis had in fact swept off the European agenda. Although it has been reinstated in words, it has been left without implementing instruments, and therefore has no practical impact on the real economy and on employment.

4. The euro's first ten years

4.1 The advantages

4.1.1 Until 2008, EMU worked quite well from a monetary perspective for the euro countries. It simplified trade, eliminated exchange rate risks and competitive devaluations, ensured price stability (average annual inflation of 2.03 % except for excessive hikes in some countries during the transition from the old system to the new), led to the reduction and convergence of debt rates (until 2009), generated growth and employment (14.5 million new jobs), kept all current accounts in balance, and debt-to-GDP ratios below Japan's and the USA's, and contained the exchange rate with the US dollar (around 30 % higher), due to the weaker economies.

4.1.2 This is the overall picture. It is different if you look at the situation in each country. The main advantages went mainly to the countries on whose economies the euro's original parameters had been based, boosting their growth and productivity and dramatically increasing exports (about 2 000 billion US dollars between 2000 and the present for Germany alone) and the corresponding balance of payments, whereas other countries benefitted in part and/or suffered real disadvantages, mainly due to asymmetries of the system associated with the single currency, to the point that countries with deficits are obliged to make corrections, while those with surpluses are not. The different reactions of countries to the situation created by the euro must also be considered.

4.2 The costs

4.2.1 The costs that must be taken into consideration are those associated with differences in the competitiveness of countries, loss of sovereignty in macroeconomic policy, the exchange rate, and competitive devaluations, etc.

4.2.2 The crisis, in the absence of adequate and complete EMU, has brought other costs, such as the transfer of bank liabilities to national budgets, increased debt, with greater difficulties for the countries that were already in greater debt. This has split the EU in two, with creditor countries on one side, and debtors on the other, and which, moreover, increasingly resemble third world countries. In fact, creditor countries are causing greater poverty in the South, and elsewhere, and greater wealth in the North. We need only think of the surpluses accumulated in Germany, not through internal euro area accounting, (in this case the EU budget would be in balance) but through its surpluses vis-à-vis third countries, which are so substantial that in the long-term they could expose Germany itself to a financial risk which could damage its own economy.

4.3 Critical issues

4.3.1 Monetary policy is affected by various structural problems and weaknesses in the governance of the currency: the limits of the Stability and Growth Pact, which some countries tried to dismantle when it created problems for them (Germany, France and Italy); the lack of monitoring of productivity indicators; the lack of crisis management instruments; the costs of staying in the euro; systemic risk; economic imbalances between countries; maintenance of fiscal and budget sovereignty by national States.

4.3.2 Exchange rate risk and competitive devaluations were not, however, eliminated between euro-in and euro-out Member States, particularly the UK, and a significant depreciation in the sterling-euro exchange rate could occur in a relatively short space of time, thereby undermining the level playing field presumed to operate under the Single Market.

4.3.3 From an economic point of view, the greatest problem concerns economic imbalances dating back to before 2000. This situation has penalised the weaker countries, causing fully-fledged 'asymmetric shocks', also encouraged by massive capital flows towards Germany. At present, the ECB does not have the tools to address these asymmetric shocks. Another problem relates to the international context and was only brought to light following the financial crisis.

4.3.4 Yet the biggest mistake was to believe that you could have a single currency without limiting the Member States' sovereignty, and not just the budget, but separate debt management in particular, a banking and financial system that remained national, alongside the supervisory system.

(1) Although at different rates (average growth of 1.6 % between 2001 and 2006), while it was 2.3 % in the three EU15 countries that did not join the euro; similarly, the unemployment rate in these countries was almost 3 % lower.

(2) 'Our surpluses are in fact deficits for the others. Our credits vis-à-vis others are their debts', (H. Schmidt).

4.3.5 Finally, the gravest mistake was to have created the euro without giving it a common home and a single voice, notwithstanding the ECB’s sporadic efforts to fill this void. Thus the ECB has shifted from the autonomy ‘enshrined’ in the Treaty to a role of policy substitution, in order to prevent damage to the single currency and the EU itself (10), as has been revealed by the role of the strongest country.

4.3.6 The EESC nevertheless believes that the euro can be made more sustainable through the convergence of the euro area countries’ economic performances, in order to encourage more uniform growth and a political union that would make these differences more acceptable because the problem is not about accounting, it is political. This includes the issue of democracy and therefore a fairer weighting of votes in the various decision-making bodies. We can no longer afford the illusion and the error of focusing entirely on the economy and on ‘accounting’.

5. The international context

5.1 Events in Europe have international consequences and vice-versa. There are very strong links between economies, the debt, finance, trade, relations between currencies, etc. In particular, we are thinking of the even closer links between the economies on both sides of the Atlantic. At least, this is how it used to be until 2009. However, at present, the US economy is recovering whereas Europe’s is in recession, partly because there are two different schools of economic thought, not to mention the differences between the roles of the Fed and the ECB.

5.2 With regard to the global economy, however, more efficient international bodies with greater decision-making powers are needed to ensure greater global governance (IMF, World Bank, ILO and WTO). The G20 would need to be more structured in order to be able to take binding decisions. For example, it should set up an ‘Economic and Social Committee’ for international development, take action through fiscal stimulus, and govern relationships between currencies in order to reduce trade discrimination, also by increasing the ECB’s scope of action.

5.3 Surplus global savings: indeed growth is vital also for the rest of the world economy. The IMF warning that Europe needs to couple debt and deficit reduction measures with measures to stimulate growth is timely and justified. There is a surplus of global savings that is not finding investment outlets. Almost USD 2 trillion-worth of private equity funds have been seeking outlets in vain (11). Norway’s major sovereign wealth fund is reducing the proportion going to European investments from over half to two-fifths (12). Asia’s biggest SWF, the China Investment Corporation, made a loss on its private equity investments in 2011, has cut its holdings of private securities to a quarter from a half, and is looking for longer term public rather than private sector investment outlets (13).

6. Ongoing EU action

6.1 EFSF/ESM: faced with the onset of the crisis, which then devolved into speculative attacks on the euro without any action being taken against the speculators, the EU has attempted to take action on various fronts. Strengthening the European Stability Mechanism by granting it a banking licence, is an example which would make it an efficient, albeit limited, instrument against speculation on bank shares and debt, to help countries that could go bankrupt through no fault of their own, even if it is not the solution to the crisis.

6.2 Banking union is another of its pillars. It is impossible to maintain an area with a single currency and 17 financial and debt markets in the long term, especially since the crisis has reinforced national segmentation. Banking union therefore becomes an indispensable and priority aspect for the reciprocity of risk, to protect depositors, including through ‘winding-up procedures’, and restore confidence in the system, which has stopped working, and to put credit for businesses back in circulation in all countries, on the basis of the affected population and not the size of the banks, thereby avoiding the transfer of liquidity to countries which are considered to be lower risks and reducing the interest rate spread. Banking union would also reduce the systemic risk and break the link between public debt and banks. Again, we should not forget that the euro was established while banking systems remained separate, a serious weakness. This is largely due to the fact that some strong countries have largely public banking systems.

6.3 European banking supervision completes the existing measures - a European competence, exerted directly by a single authority. In order to demonstrate that Europe adds significant value, it is vital to promote greater transparency in bank practices, inhibiting conflicts of interest and malpractice such as the LIBOR manipulation of interest rates. The EESC welcomes the proposal to set up a single supervisory mechanism (SSM) hosted by the European Central Bank covering the euro area and open to all Member States (14).

(10) Reuters (2012).
(14) OJ C 11, 15.1.2013, p. 34.

(1) The euro could exacerbate political tensions between MU States, to the point of creating conditions for new conflicts, even military ones’, Martin Feldstein and Milton Friedman.
6.4 The EESC welcomes the new OMT programme (Outright Monetary Transactions), which will allow the ECB to undertake transactions in secondary sovereign bond markets, to put a stop to speculation and reduce the spread on Member State debt spread, and hence on the euro. This, coupled with other non-standard monetary policy measures adopted (like others in the past) to address the financial crisis, constitutes a change of course for the ECB, albeit in the spirit of the Treaty and in the right direction. However, unfortunately, even these are technical instruments which do not solve the problem, but give EU governments time to adopt the necessary measures.

6.5 The ECB

6.5.1 The ECB's objective is 'to maintain price stability' and in order to do this it must maintain its political independence, i.e., it cannot 'seek or take instructions' from governments or the EU. This status is appropriate even though the Treaty states that the Council 'may conclude formal agreements on an exchange-rate system for the euro in relation to the currencies of third States' (15). In the absence of any such agreements, or in intervening periods between them, the ECB should regard exchange rate policy as part of its responsibility. The ECB also has secondary objectives, such as, for instance, to contribute to financial stability, even if its measures during the crisis concerned the primary objective insofar as they were mainly dictated by the need to re-establish an effective transmission mechanism for monetary policy in order to maintain the financial stability of all euro countries.

6.5.2 With regard to price trends, the question necessarily arises whether it is right for the Maastricht inflation criterion to be based on the average inflation of the three most successful countries in the EU rather than in the euro area.

6.5.3 In general, the ECB's remit is more limited than that of other central banks. Firstly, the ECB has no mandate to support growth and employment, as the Fed does, although the monetary policies resemble each other. There are however fundamental differences between the USA (centralised fiscal system) and the EU in the implementation of budgetary policy. Moreover, at present, the ECB's role as a lender of last resort is restricted to the banking system and does not extend to governments (the EU government) as implied in 'national' contexts. This is something that should become possible in a situation of complete EMU. Furthermore, the ECB's single monetary policy is made more difficult by differences and imbalances between the economies of the euro area countries, in the absence of corrective EU measures.

6.5.4 It is positive, however, that the principle of the 'singleness' of the euro area has led the ECB to state that the euro is 'irreversible' and, as we have seen, has enabled it, after a hard struggle, to adopt measures to reduce the public debt spread of the relevant countries through the acquisition of bonds on the secondary market. This process requires, in parallel with a return to growth, a 'European' plan for emerging from debt to accompany those of the individual countries (16).

6.5.5 This at least serves to reduce the distortion of competition through debt and investment financing rates: even today this is an outright financial differential, which increases existing imbalances, including imbalances of payment.

6.5.6 Furthermore, the EESC believes that it is necessary to reconsider the conditions set by the ECB and the EU. It is unacceptable to provide banks with liquidity at very low interest rates with no strings attached, for example with regard to the use of the funds. Indeed, at least part of the funds should be geared to investment, whereas stringent conditions are being applied to countries for the acquisition of sovereign debt bonds by the ECB (OMT), even if this concerns another issue. These conditions are mainly justified by the need to respond to the rules of a distorted, unscrupulous, anonymous and extremely fast 'market', which actually bears little semblance to a market (17). The EU cannot lend itself to this game: extreme austerity and stringent rules for people and businesses at a time of crisis, and neutrality for investors/speculators, who hide behind business banks and international investment funds, except for the ECB President's steadfast defence of the euro at the most critical moments of the attack.

6.5.7 The ECB's action needs to be able to provide even-handed support for the economies of the relevant countries in order to reduce existing distortions and imbalances, with the current instruments, in order to move beyond the EU's current mandate and political deficit. For instance, the interbank market in some euro area countries could be boosted through negative rates for overnight deposits at the ECB.

6.5.8 The EESC is convinced of the need to solve the debt (18) problem immediately, on the basis of its proposal, and that action by the ECB and the Council is essential to achieving this objective.

(15) Article 219 of the TFEU.
(16) OJ C 143, 22.5.2012, p. 10.
(17) 'The markets are not there for the people, but against them. Our task is to incorporate the social economy's spirit of solidarity in the markets and finance', Angela Merkel, Chancellor of Germany.
(18) OJ C 143, 22.5.2012, p. 10.
6.5.9 The Committee thinks it appropriate to give more transparency to ECB decisions. For instance, the voting results from ECB Governing Council meetings could be published, in the interests of raising the accountability of the governors of national central banks in monetary union members. That would encourage them to make decisions on the basis of overall economic conditions in the euro area rather than developments in their national economies.

6.5.10 Another problem worth remembering concerns the voting system of the ECB Governing Council (19), especially with respect to the disparity between the voting rights and financial contributions of the Member States. A problem which has already occurred in connection with the payment system within the European Stability Mechanism (ESM) and which could recur in the future, e.g. in the context of banking union.

7. The EU’s economic future: economic and social union – growth and jobs

7.1 The EESC sees the need for ecological and social investment led recovery (20) since it is convinced that stability alone will not ensure recovery, which depends on business and consumer confidence. With private sector expectations low and spare capacity high, managers cannot count on future profits from current investment. In turn, if people are unsure that they can keep or find jobs, they prefer to save, or reduce personal debt rather than spend. While higher unemployment means that fewer people are in a position to spend.

7.2 Thus, for reasons of both business and public confidence, as in the US New Deal (21), recovery should be investment led. The key criteria for this are those adopted by the EIB as far back as the 1997 Amsterdam Special Action Programme – with a remit to promote cohesion and convergence in health, education, urban renewal and the environment – plus the trans-European networks.

7.3 Recycling excessive global savings is an attainable goal, as mentioned in point 5.3. In fact some investment funds are looking for long-term outlets for surplus global savings generated in other parts of the world. This presents mutual advantages for third-country investors and for the EU economy. A key role in this context can be played by both the sister institutions of the EIB and the EIF (European Investment Fund) in the European Investment Bank Group.

7.4 Thus, the increase in the subscribed capital of the EIB is to be welcomed. An important role in recovery also can be played by Project Bonds. But Eurobonds is a good name for the recycling of global surpluses into investments, even if markets are very likely to refer to them in shorthand as € bonds. The resistance of some governments to Eurobonds is well known, but this is because they wrongly assume that they would be mistaken for Union bonds, which are intended to address debt (22).

7.5 The EIF has always maintained that it could issue European bonds for long-term social investments (23), with an increase in its subscribed capital from its currently low level of EUR 3 billion, but without needing a Treaty revision (24). None of the major and other euro area Member States includes EIB finance in their national debt. The same should apply to EIF finance. EIF bonds, like EIB bonds, can be serviced by returns on project finance.

7.6 Product innovation and creating markets: We also submit that the Union should be less ‘arms length’ in terms of innovation policy. Industrial policies fell out of fashion in the 1970s on the grounds that governments could not ‘pick winners’ or ‘national champions’. But there are grounds for rethinking this (25).

7.7 Moreover, first, ‘arms length’ policies are not necessarily virtuous. In the past, they have led to misinvestments in the financial sector. Second, there needs to be even more decisive action to counter climate change. Third, too many of the technology projects submitted under the Framework Programmes are rejected not on merit, but for lack of own resources.

(21) OJ C 143, 22.5.2012, p. 10.
(22) Idem.
(24) Article 1.2 of the Statutes of the European Investment Fund allows that ‘The activities of the Fund may include borrowing operations’. In principle, as the Fund has confirmed to us, it could issue bonds simply by a decision of its General Meeting and on approval of an increase of its subscribed capital, such as has just been agreed for the EIB. But if the EU is to recognise the significance of bond issues both to finance a social investment led recovery and also for the recycling of global surpluses, more explicit endorsement is vital. This could in principle be by the European Council as a ‘general economic policy’ of the Union to fund recovery, rather than only by Ecofin, and, if needed, the endorsement could be by enhanced cooperation, as in the recent proposal for a Financial Transaction Tax, which also could have macroeconomic significance.
which could be overcome by a bond-financed European Venture Capital Fund. Fourth, emerging economies have been able to promote a range of national champions with considerable success (26).

7.8 The investment finance generated by shifting surpluses into EU bonds should be available to all Member States and would have cumulative macroeconomic, social, employment and political gains, reinforcing the case for ‘more Europe’, on which electorates and some governments have become increasingly sceptical.

7.9 Growth can also reinforce stability. Based on the EIB precedent that bond finance need not count as national debt, Eurobond finance for recovery would make national debt reduction more feasible and release national fiscal revenues to reduce or maintain low deficits, while also protecting key social expenditures. To this end, common parameters and criteria would have to be defined by the countries and Eurostat for a fairer and better evaluation of data.

7.10 It also has been widely overlooked that the ‘crowding out’ hypothesis assumes full employment. With high current levels of unemployment in most Member States, either separate or joint EIB-EIF project bond finance could ‘crowd in’ rather than ‘crowd out’ private sector investment, income and jobs with investment multipliers of up to three, and positive fiscal multipliers in the sense of generating direct and indirect tax revenues (27).

8. The EU’s political future

8.1 As a result, the EESC is convinced that it is not enough for the EU to carry out sporadic ‘maintenance work’. It cannot perpetuate the vacuum which has existed since Maastricht, without rising to the challenge that the euro presents, and which the crisis has brought to a head, revealing its major ‘deficits’, the first of which is democratic (28), and giving European integration a purpose again in order to keep the idea of Europe alive.

8.2 The EESC believes that a single currency will be sustainable if we achieve convergence between the economic capacities (performances) of the euro area countries, an objective which requires economic as well as political commitment. We therefore need a political union that makes differences acceptable and makes it possible to transfer part of the wealth of strong countries to the weak ones through a transparent decision-making process and a new form of solidarity between countries (29).

8.3 This crisis is reawakening Europe’s ‘old differences’. The fault of looking inwards is back, digging up ghosts or preconceptions we thought had disappeared, as though austerity and debt were the product of misconduct rather than the errors of governments on both ‘sides’. Just as the countries in difficulty cannot foist their own responsibilities on the EU (or Germany), the richer countries cannot ignore the greater benefits the euro has brought them, partly at the cost of the others, due to existing economic imbalances. This is why we need a new capacity for political and cultural action and dialogue between Europeans, with unquestionable mutual advantages, as the German poet Holderlin suggested a long time ago (30), taking his inspiration from Greek civilisation.

8.4 We therefore need to make a qualitative leap, putting together not only the economy, but politics and the SOVEREIGNTY of all. There is no point in discussing what European ‘model’ to develop, but rather the instruments we need: efficient, democratic and transparent instruments to determine and achieve the common good: to unite the people of Europe, not divide them.

(26) ‘For the first time in the EU’s history, we are witnessing the dismantling of democracy’, Jurgen Habermas.
(29) ‘…For we are a conversation, and we can listen/To one another’, from the poem Celebration of Peace by F. Holderlin, poet (1770-1843).
For the same reasons, the EESC believes that the question about whether or not to amend the Treaty is not the right one. This clearly depends on what needs to be done to complete EMU. However, most of the EESC’s recommendations can be implemented without amending the Treaty (growth, debt etc.), while for others it might be enough to step up cooperation. In any case, the most important thing is the objective to be met for the good of the economy, the euro, and EU citizens. The Treaty is just the tool. This must be explained to citizens in the most appropriate way by involving them directly in decisions and/or through the EP and national parliaments.

The EESC believes that the euro area has the resources to plan its own future: more political integration and less dirigisme and a social market economy to spread growth and employment and to achieve political, economic and social union.

9. Integration or disintegration?

9.1 If we do not take this additional step, the crisis, as addressed thus far, could lead to the disintegration of the euro area, and consequently of the EU. The policy of austerity and cuts, such as debt reduction, cannot be applied alone, even when they are appropriate. Other instruments must be used (to increase demand in creditor countries) within a framework of solidarity. The citizens of the relevant countries must be made to understand that their surpluses derive from the debt of others, and that attacks on the euro have nothing to do with the level of debt (32), even if it has to be reduced. On the other hand, the citizens of the southern countries must put pressure on their governments to consolidate the debt and manage their countries’ budgets more prudently; eliminate overspending and tax evasion; cut taxes; and increase growth, employment, productivity and the competitiveness of their systems, not only through a few reforms, but through greater solidarity and a different EU and ECB economic policy (33).

9.2 Otherwise, none of the countries will be able to reduce their debts and achieve fiscal consolidation. This is why we need to relax austerity and change economic policy. Unless we do, the risks could grow. This is where history could come to our aid (34). We need to affirm a new perspective for integration, i.e. positive integration, not negative, damaging and forced integration.

9.3 We need to consider that at present nobody in Europe is safe, out of danger, even if an anomalous situation has been created. In fact, the economic growth of some countries, fostered by the euro, and the weakness of the EU institutions, have led Germany, the strongest country, to take on a central role in Europe, often in opposition to the ‘peripheries’, especially, but not exclusively of the South. This fuels the anxiety of others’ (Helmut Schmidt), particularly because of the way in which this role is perceived; hence the need for action to disprove this perception (35).

9.4 The EESC believes that Europe is currently dominated by egoism and national interests, as though we were faced with a ‘utopianism of interests’. The economistic approach has taken over and relegated to second place the values upon which Europe was founded and which are the basis for its existence. Europe emerges as egoistic and devoid of solidarity. Recent tensions carry the risk of a dangerous ‘psychological dissolution’ of the EU, affecting the public and governments, which needs to be addressed by listening without arrogance and providing concrete answers.

9.5 We are at a crossroads: the EESC cannot understand how the procrastination and indecision of Europe, the first economy in the world, are being allowed to risk strangling Greece, the mother of its principles and a minute entity in economic terms (36), requiring sacrifices from people and businesses, which do not go hand in hand with a plan to support growth, which is the only way to repay the debt, and a plan to relieve the serious social hardship of part of the population of Greece and Europe as a whole. What sort of Europe, we might ask, is this?

Brussels, 22 May 2013.

Henri MALOSSE

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(32) As illustrated by Spain, which has a lower debt (68.5 % of GDP) than Germany (81.2 % of GDP). Eurostat data for 2011.

(33) The 1956 Spaak Report recognised that the integration of economies with different efficiencies could aggravate structural, social and regional disparities and needed to be offset by common structural, social and regional policies.

(34) 1933: the consequences of the deflationary policies of German Chancellor Heinrich Bruning after the 1929 crisis.

(35) We do not need a German Europe, we need a European Germany’, H. Kohl.

(36) 2 % of EU GDP.