Notre Europe's *Viewpoint* *16 May 2012*

Stability and growth: perfecting the new European pact

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The Greek and French elections – as well as the bleak forecasts for European growth – are giving new life to the debate on the balance between European solidarity* in the face of serious, on-going crisis and increased responsibility and reforms expected from EU Member States. It is important to examine this new state of affairs by clearly identifying the key elements that Europe will need in order to forge a global compromise capable of salvaging economic, social as well as political cohesion in the euro zone and in the entire EU.

1 – The addition of a "growth protocol" to the fiscal compact

The "Treaty on Stability, Coordination and Governance" ("TSCG") signed on 1 March is an important step in the relationship between European solidarity and national responsibility that began more than three years ago. Because Member States, the EU and the ECB provide financial aid to struggling countries, in return these countries must strive to better respect budgetary disciplines which are linked to belonging to the euro zone. Without calling the Treaty into question, it is worth pointing out that, given the current economic climate, it should be complemented by a form of European commitment (an additional protocol, for instance) that would be just as clearly in favour of growth-stimulating measures.

Based on Articles 1 and 9 of the TSCG, this growth protocol should include several complementary measures: better use of the Community's budget and the structural funds to stimulate growth in Member States; doubling the loan capacity of the European Investment Bank, for instance for SMEs and innovation; issuing "project bonds" dedicated to financing pan-European infrastructure projects, mainly in the fields of energy and the environment; further development of the interior market, particularly in the service sector; implementation of a tax on financial transactions in order to correct excesses in the financial system and supplement the Community budget with a new, unique source of revenue.

Adding this protocol would help formalise a more balanced "Stability and Growth Pact" that would be better adapted to the needs of the present situation, economically and socially, as well as from a political viewpoint. It would doubtless encourage a larger number of European countries to support national efforts made toward rigor and structural reform.

2 – Continued reforms to improve competitiveness and growth within European countries

The ratification of the "TSCG +" would encourage each country's determination to carry out the structural reforms it needs in order to survive the crisis and improve its living standards within the globalised economic sphere. It is largely symbolic, as the majority of the disciplines this Treaty outlines have already been adopted through the "Six-Pack" which reformed the former "Stability and Growth Pact". But it is precisely because it has symbolic value, in the eyes of the world and of countries which must make large contributions to solidarity, including Germany, that their European partners must be accommodating on this issue.

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* *The underlined words refer to documents available on the website of* Notre Europe *(www.notre-europe.eu).*

If the EU is to prove its added value to sustainable growth, as it has in the past, it is at the national and regional levels that the key challenges of strengthening the economic momentum, competition and social cohesion of European countries must be raised. This “additional protocol” is not to be seen as “manna from heaven” which would eliminate the need for structural reforms adapted to the traditions and situations of the economies and societies of the EU. Likewise, it would be a mistake to downplay the need to treat the deficiencies of the banking systems more resolutely, which would require both pursuing on-going recapitalisation and consolidation efforts and strengthening existing regulatory mechanisms.

The letter co-signed by 12 European Heads of Government identified several possibilities for significant reforms, which should also be part of competitiveness and growth strategies led by EU Member States. The spectacular, yet painful efforts made by Ireland and Italy seem to be paying off, but this does not yet is the case for other countries. For all European countries, and France in particular, it is important to reaffirm the necessity of these reforms, by applying them at a rate that will allow social cohesion and growth forecasts to be maintained. Greece’s situation is a reminder of the importance of striking a good balance between the distribution of European solidarity and the implementation of national reforms: based on the political evolution of these countries, the EU will be required to determine at what rate the demands of recovery must be satisfied, all while paving the way for revival and hope needed by the Greek people.

3 – Strengthening the federal dimension of the European Union

Crisis management efforts have brought to light the difficulty of developing intergovernmental compromises within the European Council and, by contrast, the decisiveness of federal interventions from the European Central Bank, including those aimed at handling the banking aspects of the crisis. The new “Stability and Growth Pact” that is being finalised will be all the more effective if it is applied on the basis of a strengthened institutional and political mechanism.

The fact that the “Six-Pack” has enhanced the prerogatives of the European Commission by monitoring national budget policies has already proven to be beneficial. And it is useful that the “TSCG” foresees joint responsibility between national parliaments and the European Parliament in order to strengthen the democratic aspect of European economic governance. Community institutions should take more advantage of the new tools at their disposal, and by doing so demonstrate the necessary political will, while prohibiting contradictory, polemic declarations.

Because the crisis showed just how interconnected the economy, the banking system and even elections can be within the euro zone, it led to additional integration, which should be further encouraged. On this note, the German Minister of Finance, Wolfgang Schäuble, should be applauded for his recent statements highlighting the benefits of increased coordination of national economic policies, far beyond what is foreseen by the provisions of the TSCG. To better coordinate budgetary, social or payroll strategies, it will now be necessary to systematically appeal to a qualified majority vote, as well as to engage EMU countries within an “enhanced cooperation”, which is foreseen in the treaties.

It is all the more urgent for the EMU to seal the new economic, institutional and political pact which will provide it with sense, coherence and efficiency. Beyond the severity of the current crisis, the EU must defend its model and its interests in a world that is rapidly evolving and in which, more than ever, there is strength in unity.