

ECONOMIC GOVERNANCE - A DEBATE FOR THE EUROPEAN COUNCIL

Maria Joao RODRIGUES*

A dramatic discussion on reform of economic governance is taking place for final decisions in the European Council of 28-29. We present below a short theatre piece, where the opposite arguments of A and B are displayed.

A: The financial and economic crisis has led to very high public deficits and debts and we need to reduce them. From now on, after the stimulus packages, priority should be given to fiscal consolidation.

B: Very well, but we should not sacrifice growth, because otherwise it will be more difficult to reduce the ratio between the deficit and GDP growth. We should bear in mind our commitment in G-20 to make a “growth friendly fiscal consolidation”.

A: In order to achieve an effective fiscal consolidation, we need to give priority to cuts in public expenditure.

B: There are certainly cuts and reforms to be made, but we should not cut in the public and private investments which are needed to increase the growth potential. In order to avoid this kind of counterproductive cuts, we also need to increase the public revenue.

A: This is no longer possible, the tax level is already too high.

B: Indeed, that is why we should consider other sources of taxation, notably financial and green taxation.

A: Anyway, we need to make quick cuts, otherwise financial markets will impose higher spreads to finance the public debt.

B: With clearer European solidarity and national responsibility to manage the public debt, these spreads would be lower.

A: In order to provide this European solidarity, the mechanism and the facility we have created in May are enough. What we need now is to make a serious effort to reduce the underlying macro-economic imbalances. Those Member States which have current account deficits should reduce them by reducing public and private debt and controlling real wages in order to increase exports. This is crucial and that is why we need to broaden surveillance to macroeconomic imbalances as well as to impose sanctions to those Member States which are not able to correct these imbalances, when they are excessive. In this case, they should be penalised by losing structural funds.

B: We certainly need to tackle the macro-economic imbalances, but reducing the structural funds instead of make them for effective, is not the right way to make it. Moreover, the other side of the coin should also be seen: the European problem is also lack of demand in the Member States which have based their growth on exports to the world but also to Europe. Of course it would be absurd to penalise these countries for being successful. How don't we also foster our cooperation for growth instead of just punishing each other? We need to have the right mix of discipline and cooperation.

Final comment: the main concern underlying the current reform of the EU economic governance is that this is being driven by the trauma of the Greek crisis. It is certainly crucial to avoid the repetition of this kind of sovereignty debt crisis, but the central concern to drive this reform should be another: how can Europe foster sustainable growth and a new kind of growth, green, smart and inclusive which will decisive to keep its competitive advantage in a globalized world?

*Professor of European Economic Policies at the Institute of European Studies, Université Libre de Bruxelles, Policy advisor to the European Institutions