

EUROPEAN PACTS

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The European adventure is now entering more troubled waters. The Competitiveness Pact presented by the German Government means, finally, the recognition that the euro-zone crisis requires not just *ad hoc* but a more systemic solution. At the heart of this Pact, there is a very simple idea: if you want a stronger solidarity mechanism to deal with sovereign default, you need to accept more coordination and even convergence of fiscal, economic and social policies in the euro-zone.

This opens a unique opportunity to move to something which is missing since the conception of the Economic and Monetary Union in 1992: a real Economic, not just Monetary Union. Still, the risk of serious divisions are also emerging due to member states feeling excluded, others feeling they are losing sovereignty and others opposing this attempt to generalise the austerity and competitiveness model advocated by the German government.

This opportunity can only be seized by launching this negotiation process with a sounder footing. Even if a Euro-zone Summit can play an important role, the member states willing to sign up this pact should be involved in this exercise of shared sovereignty. They should start by identifying which are the central priorities to ensure the long-term sustainability of the euro-zone. We can say they are fiscal discipline coupled with a last resort solidarity, a financial system ensuring stability and growth, a competitiveness based on a smarter, greener and inclusive growth as well as effective mechanisms to promote fiscal, economic and social convergence.

If these priorities are really accepted, they should drive the reforms of the EU economic governance which are now underway, covering, not only the financial stability instruments to deal with sovereign debt, but also the Stability Pact, the new macro-economic surveillance and the EU 2020 agenda for growth and jobs.

The financial stability instruments to deal with sovereign debt should put a brake into this dangerous divergence of spreads, ensuring that all euro-zone members have access to more reasonable financial conditions. This means lower interest rates, larger scope and more flexibility of these instruments.

Conditionality should address fiscal consolidation and growth needs. Euro-bonds should also be explored to finance key investments which cannot find other funding solutions.

Fiscal consolidation should be strengthened on the basis of a clear national framework to ensure public debt sustainability, but it is also important to keep the fiscal space to make key-investments and avoid wrong cuts. This can also require more European coordination to introduce new tax sources, such as green or financial taxes. A common base and a minimum corporate tax is also a logical consequence of more European solidarity regarding sovereign debt.

Macro-economic imbalances can be reduced by a national effort to ensure responsible lending and borrowing and to improve unit labour costs. In the less competitive countries, productivity should increase faster than wages, whereas in highly competitive countries more internal demand is needed. However, supporting general conditions are also important: structural funds should be more focused on building competitive capacities in the lagging behind regions.

Structural reforms should deal not only with labour market and pension schemes but with education and innovation systems. Their focus should be on fostering job creation into new activities and re-skilling labour force to meet the opportunities of this transition to a smarter and greener economy. Financial reforms should underpin all this process. Not only to secure financial stability and more responsible lending, but also to finance this transition.

Europe can still build a new competitive advantage by leading this transition. However, this can only be possible by ensuring that all Member States will really have this opportunity when they will engage in further efforts. The right mix of rules, sanctions and incentives should be set. Leadership should be based on conquering hearts and minds, not only on devising new punishments.

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