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EDITORIAL

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2010 – 2020 : Urgences et perspectives

Au sortir de la crise économique et financière mondiale, et dans un contexte de mondialisation accrue, les Européens doivent impérativement relever des défis urgents mais qui, paradoxalement, s'inscrivent dans des horizons lointains.

Ainsi, l'Europe doit redéfinir les moteurs de la croissance économique, désamorcer les bombes à retardement que sont les dettes publiques, renforcer sa gouvernance économique, et investir dans son capital humain.

Parallèlement, elle doit aussi affronter la question du réchauffement climatique, celle du développement durable, et la nouvelle donne géopolitique – notamment en matière d'énergie.

Enfin, l'Europe doit faire face aux défis du vieillissement de sa population, de l'immigration et de l'intégration de ses minorités ethniques. Face à ces défis, la démarcation entre le court terme et le long terme ne fait plus guère de sens tant les enjeux sont entrecroisés

Décalages et partages

Alors que les États membres sont le plus souvent soumis aux aléas politiques propres à la nature *pro tempore* des démocraties européennes – la tyrannie du court terme – l'Union européenne, bénéficiant du privilège de la continuité, se doit d'inscrire son action dans la durée.

C'est le rôle et la responsabilité de la Commission européenne de développer une vision d'ensemble, une stratégie sur le long terme, afin de mieux orienter ses choix politiques. Dans cette optique, la stratégie Europe 2020 et le réexamen budgétaire illustrent bien ce besoin de définition des priorités stratégiques de l'UE sur le long terme. Mais il s'agit aussi de dépasser les logiques encore trop sectorielles et de développer des approches plus intégrées, afin d'adapter les pratiques de la Commission aux réalités d'interdépendance du XXIe siècle.

John Maynard Keynes disait: "À long terme, nous sommes tous morts". Mais c'est aujourd'hui que nous, européens, risquons d'être, sinon morts, du moins très affaiblis, si nous n'apprenons pas à conjuguer le futur au présent.

Nos tâches

Dans ce contexte le BEPA doit se resituer dans une optique de moyen et long termes, afin de préserver son rôle crucial de trait d'union entre la Commission et les acteurs du changement d'aujourd'hui et de demain. Le BEPA bénéficie du recul nécessaire pour observer globalement les tendances sur des horizons lointains, et préparer les premiers éléments de réponse aux défis à venir. Cette remise en perspective du BEPA est vitale, car elle assure la mise en phase des politiques de la Commission avec les exigences futures et le besoin d'adaptation constant propre au XXIe siècle.

C'est donc sur ce souhait de mise en perspective que s'inscrit ce nouveau numéro de *BEPA Monthly* qui se penche sur des propositions récentes de la part de l'Union en matières économiques et budgétaires. Il s'agit de nourrir le débat au delà des échéances plus immédiates et de se préparer aux défis prévisibles des années à venir et aux répercussions possibles de nos décisions actuelles, de manière à éviter à l'Europe une "décennie gâchée".

1 Governing the euro zone: learning by doing?

*By Loukas Tsoukalis**

Crisis, they say, is the mother of change. And crises have in the past played the role of catalyst for further integration in Europe. It could happen again now.

The crisis of the euro during the first half of 2010 brought to an end a long period of stability that had followed the creation of the single currency. Greece found itself at the centre of the crisis because it was seen as having the worst combination of three deficits: namely 1) a huge budget deficit, coming on top of a very large accumulated debt; 2) an expanding and unsustainable deficit in the current account, combined with 3) a credibility deficit as Greek governments were found to have been – shall we say – economical with the truth and very flexible in their use of statistics.

Sure, the crisis exposed the results of years of economic mismanagement in Greece. But it also revealed a) the short-sightedness of financial markets which had been financing until very recently those deficits at low interest rates and, now, were typically over-reacting to the realisation that the party could no longer continue, and b) the weakness of euro governance structures.

It was not just about the growth and stability pact, imperfect in its design, weakened and poorly implemented in the process. The pact could have conceivably prevented the fiscal crisis in Greece, if it had worked properly. But it was never intended to deal with the financial and construction bubbles experienced in Ireland and Spain.

A support mechanism was created for Greece in May, setting a new record in international financial history. It was coupled with strong conditionality, and the stabilisation and reform programme is being monitored jointly by the European Commission, the ECB and the IMF. This was soon followed by a much bigger European financial support facility to be activated if and when the need arises – in the hope that it will not.

Greece is now implementing fiscal consolidation measures and structural reforms that would have been simply unthinkable only one year ago. The risk of bankruptcy surely helps to concentrate minds. Yet the programme will be a difficult test of endurance for the country's political system, its economy and society at large; nobody knows in advance what the threshold of pain is beyond which the patient may no longer be able to cooperate. Other vulnerable members of the euro zone have also embarked on ambitious and painful fiscal stabilisation measures.

We are now near the end of a difficult negotiation which is expected to lead to closer and more binding coordination of national economic policies, extending well beyond public budgets to macroeconomic imbalances, biting sanctions and more effective surveillance, as well as greater emphasis on structural reform. A new crisis resolution mechanism has also been put on the table, although this may require another treaty reform – which will surely be no easy task, judging from recent experience and the mood prevailing in several Member States.

What lies behind

The final shape of the new governance structure for the euro zone is not yet known at the time of writing. Combined with new provisions for financial regulation and supervision (which have eventually gone much further than expected only a few months ago), it seems to be going in the right direction: closer coordination, stronger rules backed by the threat of sanctions, and close monitoring.

The proposals made by the Commission in late September have framed the context and the contents of the negotiations, in conjunction with the discussions in the Task Force chaired by Herman van Rompuy. The final equation is shaping up reasonably well but, of course, the devil always lies with implementation – even more so when it all relates to the EU with its complex decision-making structures.

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Until now, in fact, the negotiations have shown a significant divergence of views and perceived interests building, in turn, on an increasing divergence of economic performance among member countries – not a rock-solid basis to build upon.

The choice between rules and political discretion has always been a difficult one, and rules indeed become more important when trust declines. This may be the situation in Europe today, regrettable though this may be. But macroeconomic policy cannot rely only on rules. Closer coordination of national economic policies is indeed a good thing, but how will macroeconomic priorities be set for the euro zone as a whole? And how will the burden of adjustment between surplus and deficit countries be distributed?

This is an old problem that dates back to the first negotiations on European monetary integration, and further back to Keynes and the Bretton Woods arrangements. The French most notably have tried to ensure some symmetry in the distribution of the burden of adjustment between surplus and deficit countries in the European monetary system from the very beginning – judging from results, mostly in vain.

Distribution issues are always politically awkward, and lurking behind the debate about the crisis resolution mechanism has been another one, namely the distribution of the costs of a hypothetical sovereign default between taxpayers and creditors.

There is no agreement between countries on the timing of exit strategies or the appropriate dose of fiscal reflation at a time when economic recovery remains fragile in most countries (there is no agreement among economists either, although this should hardly come as a surprise). Financial markets that have rather belatedly realised the risk associated with rising sovereign debt are again setting the tune, and the tune is fiscal consolidation all around, and fast. The German government, and a few others, sing the same tune.

We can only hope that they will be proved right this time. If Europe were instead to plunge soon into another recession, followed by further increases in unemployment, it could all turn nasty. Remember that the social and political consequences of financial crises come with a time lag.

Matters of interest

Further integration today is happening through necessity, not choice. If anything, there seems to be little appetite for it in most European capitals. Nothing wrong with it, the realist might reply: it is need that brings change, good intentions will not do the trick. Perhaps so, but one possible consequence could be a more intergovernmental kind of integration being born out of the recent crisis. Such integration would not necessarily be resistant enough when the next crisis hits.

The stakes are indeed high. In May 2010, European leaders reached the edge of the precipice; luckily, their instinct of survival prevailed. This is precisely what those betting on the demise of the euro had not really understood or anticipated – and not for the first time. Hopefully, European leaders will continue doing the same as we all try to adjust to a post-bubble world.

Learning by doing, or political balancing on a tight rope at a vertiginous height? We live in interesting times, although I understand that for the Chinese this is meant to be a curse, not a wish.

2 The EU budget and the risk of a "lost decade"

By Iain Begg

The EU functions through three distinct, but linked modes of governance. The traditional core approach is regulatory (in the widest sense), exemplified by the single market, the euro and the range of policies that underpin them. Second, there is co-ordination of national policies – which has expanded significantly since the creation of the euro and the launch of the Lisbon strategy.

The third mode of EU economic governance is direct spending which, by contrast, has played a fairly marginal role in recent years. Indeed, despite the changes introduced in successive Multi-annual Financial Frameworks, the budget remains concentrated on the same two policy areas – agriculture and cohesion – as it was twenty years ago. Although some spending from the EU budget was included in the European Economic Recovery Package, it was not large enough to make a meaningful macroeconomic difference. Using the EU budget as part of the funding package for the European Financial Stability Facility agreed in May 2010 was a potentially more momentous development, although it remains to be seen whether it was a one-off or the harbinger of a new approach.

Despite being subject to a review that was supposed to be conducted in 2008/9 (and for which the *leitmotif* was that there should be "no taboos"), the budget has also suffered from a lack of political attention, mostly because other policy priorities always seem to take precedence. Initially, it was securing ratification of the Lisbon Treaty, especially after the Irish "No" vote. Then it was the exigencies of the financial and economic crises. More recently, the "Greek crisis" and the risk of contagion spreading to other Member States saw the bulk of the political effort over the last six months focused on how to improve policy coordination at EU level and agree on more effective regulatory mechanisms: the resulting van Rompuy proposals are now on the table.

At long last

But so, too, is the oft-postponed Commission Communication on the budget review, published on the 19th of October. The intention of the review was to examine the principles on which the budget was to be based, and not to be the first round of negotiations about money.

This was never going to be an easy distinction to make, but the Commission Communication does indeed focus on what to spend the money on rather than how much should be allocated. In particular, it suggests that the budget should be concentrated on core policy areas, interpreted principally as the "Europe 2020" strategy captured in the "smart, sustainable and inclusive" formula for EU growth. Special emphasis is given to the scope for EU level spending to support the EU's capacity for growth.

The question now is whether the conclusion of the review will pave the way for a radical modernisation of the budget as the third arm of economic governance, contributing more emphatically to the ambitious goals the Union has set itself for the next decade and to forestalling a "lost decade".

History does not offer much encouragement, and the Communication ultimately gives only limited guidance. It makes a compelling case for placing innovation at the heart of the budget and ensuring that more resources are available for new policies, including action to deal with the threat of climate change. But it also argues for persevering with EU spending on agricultural policy and a cohesion policy that offers resources to *all* Member States, paying little heed to the merits of a more concentrated cohesion policy.

Indeed, there is a danger of turning cohesion policy into an all-purpose instrument for delivering "Europe 2020" that could detract from its core role in supporting economic development of less-favoured regions. Nor does the Communication give a clear sense of whether

** Iain Begg is Professorial Research Fellow, European Institute, LSE* a pronounced shift in the balance of EU spending is justified. It is easy to understand why it has taken this line and why it wants to avoid discussing money – but it is not necessarily the best recipe for decisive reform.

Budgeting from Mars

It is tempting to imagine what sort of EU budget would emerge if a consultant from Mars were given a blank sheet of paper and asked to design a suitable package to promote the long-term growth and well-being of the EU. The said consultant would almost certainly start by asking what the most pressing challenges are and, once these were identified, which level of government would be best-placed to respond to them.

Some are bound to transcend what can be done effectively by regions or even entire Member States acting alone – the most obvious of which are acting to address climate change and developing long-term solutions to energy needs that combine sustainability and a substantially reduced dependence on politically volatile suppliers.

Achieving a 30% reduction in carbon emissions, as is envisaged in "Europe 2020", will be demanding, yet it is broadly accepted that the EU will subsequently have to aim for still larger abatement of carbon emissions. Mitigating carbon emissions must not, however, be seen purely as a cost, because there are undoubted business opportunities associated with a shift to a "greener" paradigm involving extensive use of new technologies. In this regard it is important to distinguish three categories of technologies:

- Those that are known and proven, but which need to be more effectively diffused and scaled up in a way that reduces marginal costs and thus improves incentives to adopt them;
- Those for which the science is broadly understood, but which need to be further developed as part of an innovation strategy to become commercially and socially viable;
- The "blue-skies" ideas that will provide breakthroughs capable of reconciling long-term energy needs with environmental sustainability.

For all three directions for technological advance, the rationale for support from the EU budget is the classic one that Member States acting alone will find it harder to appropriate the benefits of investing in them, and will thus be led to under-invest. Consequently, a persuasive case exists for EU level funding.

Landing in EUrope

The trouble in all of this is that the debate on the EU budget is trapped in its own past. A good example of both the magnitude of the political challenge and the poverty of the debate is an editorial published in *The Times* on 25 October 2010, just days before the European Council expected to agree major reforms of European economic governance. For *The Times*, what David Cameron ought to use all his guile to achieve is not a shift in spending priorities, but preservation of the UK rebate.

One of the hopes expressed in the Communication (and one that it is easy to share) is that, by switching to some new form of authentic "own resource" rather than direct contributions from Member States, the debilitating obsession with net contributions will diminish. Sadly, this could well prove disingenuous: however much purists rail against the notion of *juste retour*, every Finance Minister at the negotiations will anticipate to two decimal places what the net cost or benefit to his or her country of any new MFF will be.

By then, it will be important to offer an alternative and ambitious rationale for EU expenditure proper: the Communication is a start, but the signposts should be moved more decisively.

Our Martian consultant would be tempted to embark on a rocket home if asked to reconcile a) the continuing demands for sizeable proportions of a budget amounting to barely 1% of EU GDP to be spent on agricultural policy and cohesion policy in richer regions, with b) the many new demands around grand challenges.

Quite simply it cannot be done, and the clear implication is that it is time for hard choices to be made. Will the decision-makers in all European capitals rise to this challenge?

3 BEPA News

Arrivées

Le 15 octobre Graeme Carter a rejoint le BEPA en tant que membre de l'équipe Outreach – Dialogue européen. Auparavant il travaillait au parlement européen.

L'équipe Outreach – Dialogue européen accueille également Katharina von Schnurbein, qui travaillait précédemment en tant que porte-parole pour le commissaire Vladimir Špidla, chargé de l'emploi, des affaires sociales et de l'égalité des chances.

Enfin, depuis début octobre, et pour les cinq mois à venir, deux jeunes diplômées effectuent leur stage au BEPA: Marie Bonnenfant et Aylin Lusi.

Le BEPA souhaite la bienvenue à ses nouveaux membres.

Evénements

Le 21 octobre, le BEPA a organisé une réunion avec une trentaine de représentants de think tanks européens de premier plan. Le président Barroso les a reçus autour d'un déjeuner pour discuter des actualités en Europe et dans le monde. Hervé Jouanjean, Directeur-Général de la DG Budget; Robert-Jan Smits, Directeur-Général de la DG Recherche, et Koen Doens, chef du service des Porte-paroles, ont nourri le débat en présentant les derniers développements qui ont eu lieu dans leurs services respectifs. Les échanges entre les participants externes et les membres des différentes DG étaient enthousiastes et constructifs. La réunion renforce et reflète le besoin mutuel d'engagement dans un dialogue constant entre la Commission d'une part, et les acteurs externes d'autre part – dans lequel le BEPA joue le rôle crucial de médiateur.

Le 15 octobre, BEPA a accueilli dix-huit représentants d'organisations philosophiques non-confessionnelles issus de onze états membres. Dans la matinée, une réunion s'est déroulée en présence M. Jerzy Buzek, président du Parlement européen, et M. Herman van Rompuy, président du Conseil européen, ainsi que M. Maroš Šefčovič, vice-président de la Commission chargé des relations interinstitutionnelles et de l'administration. Ils ont débattu des moyens de lutter efficacement contre la pauvreté et l'exclusion sociale, un impératif pour la gouvernance européenne. La discussion s'est tenue dans un esprit de franchise et d'ouverture. Les invités ont exprimé leur soutien à la stratégie Europe 2020 et ont souligné leur engagement permanent en faveur d'un renforcement de la cohésion sociale et de la solidarité – la crise actuelle ne pouvant être surmontée qu'en plaçant les individus et la justice sociale au cœur des politiques européennes.

Le 27 octobre le président de la Commission a inauguré la Salle Ortoli – anciennement Salle Hebdo – au 13e étage du Berlaymont, en présence de la famille, les amis et collègues de M. Ortoli, tels que le vicomte Etienne Davignon ou M. Yves Thibault de Silguy. Francois-Xavier Ortoli fut président et vice-président de la Commission européenne de 1973 à 1977.

Evénements à venir

Le 15 novembre BEPA recevra un colloque sur la lutte contre la pauvreté et l'exclusion sociale, organisé par l'Association Européenne de la Pensée Libre (AEPL). Le débat sera animé par M. Andor, Commissaire européen pour l'emploi et les affaires sociales, Prof. David Piachaud de la London School of Economics, ainsi que M. Jean -Pierre Garson, chef de division "migration internationale" à l'OCDE.

Publication

Le quatorzième numéro de *Ethically Speaking* vient de sortir. Ce bulletin d'information est composé de contributions des Comités Nationaux d'éthique de l'Union Européenne, de contributions des membres du Groupe Européen d'éthique et d'importantes organisations internationales. Il traite des problèmes éthiques que soulèvent fréquemment les progrès fulgurants de la technologie, la biologie et la médecine, tels que la bioéthique, la protection des données personnelles ainsi que le clonage animal.