Financial, economic and social crisis: recommendations concerning the measures and initiatives to be taken. Mid-term report

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The Special Committee on the Financial, Economic and Social Crisis adopted the report by Pervenche Berès (S&D, FR) on the financial, economic and social crisis: recommendations concerning measures and initiatives to be taken (mid-term report).

Causes: the committee notes that notes that global imbalances, regulatory governance (regulation and supervision), and monetary policy - together with specific factors inherent in the financial system, such as the complexity and opacity of financial products, short-term featured remuneration systems and inadequate business models - are the three main factors contributing to the current financial crisis.

Effects: the financial turmoil caused world-wide contraction in economic activity and triggered a global economic and social crisis with widespread increases in unemployment, poverty and social exclusion. The public deficit in the EU rose from 2.3% of GDP in 2008 to 7.5% in 2010, with the public debt-to-GDP ratio rising from 61.6% of GDP in 2008 to 79.6% in 2010, brushing aside in two years all the efforts at budgetary consolidation made over almost two decades by some Member States. The committee deplores this setback as it will make responding to unemployment and demographic challenges much more difficult. It notes that Commission forecasts point to an EU-wide rate of unemployment of almost 11% in 2010, which will have serious implications for the EU's labour force.

Response and national recovery plans: the rescue measures adopted in the EU had a positive result and the creation of a European stabilisation mechanism was welcome. However, Members regret the modest level of coordination among the different national recovery plans, as the multiplying effect and leveraging potential of EU-level coordination would most probably have exceeded the effect that can be reached through largely national-level planning, which carries the risk of being mutually contradictory. They call for an increase in the European dimension of future recovery plans and large-scale investments. They also call on the Commission to give a very precise report on the effectiveness of the national bank rescue packages and national and European recovery plans decided over the autumn and winter of 2008-2009 with respect to the Union's long- and short-term objectives, including a thorough analysis of the consequences of the revised state aid mechanisms adopted in response to the crisis and with regard to competition policy.

The future – a Europe of added value: the committee considers that the EU needs a more united, efficient and less bureaucratic Union and that the Commission, whose task it is to define and defend the general European interest, must, as a priority and in line with its right of initiative, commit to action on behalf of the Union in those fields where it has shared competences or competence to coordinate Member States' actions. The Commission should assume full responsibility to ensure the steering and financing of projects in the following fields:

- new investment in research and the development and deployment of renewable energy sources, in energy efficiency, especially in the European building stock, as well as in resource-use efficiency more generally;
- strengthening the European energy network by interconnecting national networks and distributing power from major centres of renewable energy production to consumers, as well as introducing new forms of energy storage and the European High Voltage Direct Current (HVDC) "super-grid";
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developing a high-speed public rail service connecting the Union from east to west and north to south, together with plans to facilitate investment in its infrastructure and critical infrastructure in public ownership;
- providing fast internet access throughout the Union, ensuring the rapid execution of the EU's digital agenda and providing all citizens with reliable, free access;
- developing EU leadership in the field of e-health;
- completing the development of, and creating common standards for, electric mobility.

The committee also believes that, while there may be agreement on matters of governance and on EU activity in terms of shared competence and supplementary action, the Union requires resources, especially financial resources, to pursue such a strategy.

Financial regulation and supervision: the crisis has revealed the limits of self-regulation. Therefore Members call for a regulatory and supervisory system which leaves no financial market, no financial instrument and no financial institution off the record book; To achieve this aim, the following urgent actions need to be taken:

- introducing more counter cyclical regulation;
- reducing systemic risk posed by large and/or interconnected institutions ("too-big-to-fail") and derivative markets;
- enacting strong governance policies on remuneration to remove conflicts of interest and introduce a longer term perspective into the financial system;
- strengthening pan-European and global regulation and supervisory structures;
- investigating the use of off-balance sheet transactions and the proliferation of SPVs and SPEs;
- introducing a tax on financial transaction;
- introducing new standards on statistical data on the financial sector;
- improving shareholder voting rights.

Economic and Monetary Union policies: Members urge the strengthening of the Stability and Growth Pact be strengthened, especially its preventive arm, where the means of peer pressure is the strongest instrument presently available to make Member States comply with Council recommendations. They call for the economic surveillance carried out by the Commission to be given more teeth, and feel that the possibility of creating incentives for fiscal consolidation has to be explored. The report proposes the setting up of an effective incentive and penalty mechanism to be applied to the implementation of the Stability and Growth Pact, which would contribute to preventing any worsening of the current crisis. The Commission needs to put in place an enforced European sanctioning mechanism which is under its clear competence within the euro zone in order to force Member States to respect the rules of the Stability and Growth Pact.

Multilateral surveillance needs to be deepened, directing adjustment at situations of both deficit and surplus states, taking account of each country’s specific circumstances; furthermore, more transparency is needed with respect to public finance data.

On **fiscal policy**, the committee states that a common currency can only operate if Member States coordinate their budgetary policies and open their books to each other. This process requires close cooperation with national parliaments. Members call on the Commission and the Council, with Eurostat's support, to improve the comparability of spending under national budgets in order to identify policy complementarity or convergence.

Internal market and taxation: the internal market is one of the main drivers of European growth. Therefore, the EU 2020 strategy should serve as a concrete program for strategic long term investment and employment in order to face the economic crisis and strengthen the internal market. A coordinated approach is needed at both national and EU level to capitalise from best practices in the fight against tax

fraud and evasion. Members support the idea of setting up a Tax Policy Group as an important step to encourage a dialogue between governments on tax policy and advocate a tax structure geared to ease the burden on labour and to encourage and create incentives for employment, innovation and long term investment.

Regional, economic and social cohesion: cohesion instruments are a crucial tool for assistance to the regions, which need it the most, to overcome the consequences of the crisis by supporting investment in infrastructure, businesses and jobs; Therefore it is vital that any long-term EU investment strategy, notably when supported by cohesion policy, be linked to results in terms of competitiveness, growth, creation and preservation of decent jobs and environmental protection.

EU 2020: the EU 2020 Strategy as proposed by the Commission should concentrate on making the internal market less bureaucratic, by reducing administrative burdens on business by 25% by 2012, and more efficiency-driven, by using the internet as the backbone of an EU-wide e-market that will generate new services and jobs. In addition, Members feel that the governance structure of the Europe 2020 strategy should be strengthened: a broader use of binding measures is necessary to make the new strategy a success, instead of continued use of the open method of coordination in the field of economic policy. The report urges an economic strategy for economic recovery based primarily on EU instruments and not mainly on intergovernmental initiatives.

Innovation and the creation of new jobs: the report calls on the Commission to propose a mechanism whereby SMEs and other innovators would be offered risk-softening funding in public-private partnership with private equity funds, where money from the European Investment Bank, together with public money from the Member States, with the support of risk-guarantee mechanisms by the European Investment Fund distributed through the private equity fund, would enable the projects to leverage private investment up to 80%. Sustainable job creation and high-quality employment should be a key priority. Members urge the Union to link its actions on employment to measures to combat poverty and social exclusion, together with an effectively functioning internal market for workers within the EU, so that the crisis does not further increase inequalities. They call for a 75% employment rate for men and women by 2020 by reducing labour-market segmentation and stepping up efforts to facilitate the balance between work, caring responsibilities and family life.

Creating new jobs by promoting SMEs: the essential role SMEs play in the economy as key generators of employment and drivers of research, innovation and growth needs to be emphasised. Members call on the Union to create an **EU Guarantee Fund for SMEs**, and also call for an evaluation of existing funding schemes, especially the CIP programme, and for dedicated efforts to make EU-backed loans accessible to businesses in all Member States and to develop services to SMEs and social dialogue structures. Furthermore, they want a significant reduction in public procurement bureaucracy for SME's, a reduction in red tape and a one-stop-shop for all administrative issues of SME's.

Development: 40% of developing countries have been highly exposed to the effects of the financial crisis, and an estimated 90 million people will be plunged into poverty as a result. Members call for a re-affirmation of the pledging of 0.7% of Member States' GNI to development aid and for an exploration of additional innovative sources of financing to close the financing gap caused by shrinking economies in the developing world.

Global governance: the report recognises the weaknesses and problems caused by the lack of legally binding powers, and the disconnectedness, of the global financial and economic institutions. It welcomes the initiatives to enhance the effectiveness and accountability of the IMF and other UN institutions and, where appropriate, given powers to lay down legally binding rules in the form of international conventions. Members take the view that the EU's global challenges include matching its economic

strength with relevance on the world stage by speaking with one voice. One of the key projects of the EU's foreign policy must be to strive to reform the UN and the UN-related institutions into global institutions with real political leverage.