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

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The European Parliament adopted by 501 votes to 67, with 50 abstentions, a resolution on the financial, economic and social crisis: recommendations concerning measures and initiatives to be taken (mid-term report).

Causes: in its resolution, Parliament 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. Parliament deplores this setback as it will make responding to unemployment and demographic challenges much more difficult.

The crisis has had an impact on employment throughout the EU. The 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. The social effects of the crisis are very different depending on the Member State. Beyond unemployment, the crisis has had a multifaceted social impact, notably including some erosion of working conditions, increasing difficulties for some people to access basics needs and services, increasing homelessness, over indebtedness and financial exclusion

Response and national recovery plans: Parliament approves the non-conventional measures put in place by the ECB and national central banks over the last two years to bail out banks in the Member States that that were at risk of bankruptcy. However, it stresses the need to gradually phase out these unconventional measures in order to prevent unfair competition in the banking sector.

It welcomes the adoption by the Ecofin Council on 10 May 2010 of the EUR 750 billion stabilisation plan. It demands that the European Parliament be involved as co-legislator in forthcoming crisis rescue proposals and decisions.

However, the resolution regrets 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. It also calls 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 and the upholding of a level playing field in the EU, financial reform and job creation.

The future - a Europe of added value: Parliament deems it unacceptable for the Union to be the only integrated area in which the question of energy, especially the energy mix, is not regarded as a strategic

issue both internally and in the context of relations with partner countries. It considers that initiatives on energy need to be taken in the EU on a basis of close coordination between the Commission, the Member States and the relevant sectors of the industry in order to safeguard the supply of energy sources, such as oil and gas, to its Member States.

Parliament proposes that the Commission assume full responsibility for ensuring 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 ;
- promoting EU space-based infrastructures in the area of radio navigation and earth observation;
- developing a high-speed public rail service connecting the Union from east to west and north to south;
- providing fast internet access throughout the Union;
- developing EU leadership in the field of e-health;
- completing the development of, and creating common standards for, electric mobility.

It 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: Parliament notes that this crisis marks the limits of a system of self-regulation and over-reliance on the capacity of market participants in the financial sector and of rating agencies always to correctly assess and properly manage risks.

It considers that transparency in both corporate and Member State financial statements is required in order to restore confidence; calls upon the Commission, therefore, to investigate the use of off-balance sheet transactions, unfunded liabilities and the proliferation of SPV and SPEs and to consider limiting their use or requiring mandatory declarations in published accounts. It calls for opportunities for regulatory arbitrage to be minimised globally through firm agreement at G20 level and within the European Union, and, where possible, to be abolished through the application of a common rule book for financial services

The resolution stresses the need for:

- concrete proposals for an EU framework for cross-border crisis management in the financial sector
- banks to produce a ‘living will’ detailing their orderly liquidation in the event of a crisis
- new standards for statistical data on the financial sector
- a system of supervision and regulation which leaves no financial transaction and no financial instrument off the record book
- that a sufficiently broad set of criteria for systemic risk needs to be used as the basis for categorising financial institutions, especially within the EU
- a feasibility and impact study on the setting up of a public and independent European Credit Rating Agency
- the consideration of proposals on shareholder voting rights in terms of providing for greater transparency.

In order to revitalise and unblock the flow of credit to companies and individuals, Members consider it is essential to find long-term solutions to the difficulties posed by the enormous amount of private debt for both households and businesses.

EU governance: Parliament considers that at times of economic and social crisis Europeans expect accountability, responsibility and solidarity to be the guiding principles behind European decision making. It points out that the long-term sustainability of public finances is essential to stability and growth and shares the Commission's view that the Stability and Growth Pact requires more effective incentive and penalty mechanisms.

The resolution notes that the crash has shed new light on the demographic challenge and the challenge of funding pensions; considers that the funding of pensions cannot be entirely left up to the public sector, but that reliance should be placed on tripartite systems including public, occupational and private pension schemes duly guaranteed by specific regulation and supervision in order to protect investors. It considers, furthermore, that pensions will need to undergo European-wide reform.

It believes that the Commission, in line with its right of initiative, must commit to action on behalf of the Union in those fields where it has shared competences or competence to coordinate Member States' actions. It calls upon the Commission to utilise regulations instead of directives as the legal basis in order to facilitate uniform adoption across the EU and to prevent distortions.

Economic and Monetary Union policies: Parliament confirms its commitment to the euro and stresses that the Stability and Growth Pact (SGP) is the only existing regulatory instrument that can provide a fundamental regulatory framework for macro-economic policies and public finances in the EU. It urges that the provisions of the Stability and Growth Pact be strengthened, especially its preventive arm. It also urges the Commission 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.

Parliament believes that, in addition to having a single currency, the euro zone countries should go a step further by making arrangements for a mutual issue and management of a proportion of Member States' sovereign debt providing a basis for more complex multilateral surveillance with assistance from the EMF and EFSF, in order to ensure that the euro zone market as a whole is more attractive and for joint debt management.

Members consider that the broad economic policy guidelines both for stability and growth established jointly with Parliament should be used as a framework for discussion and evaluation of the Member States' budgets – before their presentation to the respective national parliaments. They call on the Commission and the Council to define broad common guidelines for the EU to implement a sustainable market economy.

Fiscal policy: Parliament calls for a common budgetary strategy in order to restore and safeguard the EU as a long-term economic growth area. It insists on the need for greater compatibility and complementarity are needed between the national budgets of the 27 EU Member States and the EU budget; emphasises the greater role the EU budget. It calls 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.

Taxation: the resolution recognises that in order to further develop the Union's internal market, a coordinated approach is needed at both national and EU level to capitalise on best practices in the fight against tax fraud and evasion, while defining appropriate incentives for tax payers to duly pay their taxes and for the tax authorities in the Member States to adopt effective preventive measures against all types of tax malpractice.

It asks the Commission to i) draw up an impact assessment to evaluate the different problems caused by tax evasion and the black economy in all the Member States; ii) propose a set of measures to help the

Member States restore the balance of their public accounts and to finance public investment by tapping innovative financial sources.

Europe 2020: Members consider that, if the goals of the strategy are to be achieved, it is time to coordinate our macroeconomic policies closely. They consider that education should be placed at the very heart of the Union's economic strategy and that tackling youth unemployment and fostering an effective matching of skills and market needs should be focal points. They also call for an ambitious long-term strategy against poverty.

Innovation: Parliament considers that the EU should encourage innovation in energy generation from renewable resources, putting the emphasis on low-carbon local sources. It advocates a fair and equitable gradual transition to a green economy. It calls on the Commission to develop and propose a mechanism whereby SMEs and other innovators would be offered risk-softening funding in public-private partnership with private equity funds.

The resolution supports the establishment of financial institutions to provide financing for innovation projects throughout the Union, which are essential for future sustainable growth. It urges the Commission to work to eliminate administrative hurdles, and to improve the conditions for innovation, for example by creating the single EU patent.

Employment and promoting SMEs: Parliament considers that one of the great challenges facing the European Union is that of maintaining its competitiveness, increasing growth and combating high unemployment. It calls on the Member States and the Commission to achieve 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.

Members consider that efforts to support job creation need to be focused on employing the young. They stress the need to create inclusive and competitive labour markets which provide greater flexibility for employers while at the same time guaranteeing unemployment benefits combined with active support for re-employability in the event of job loss.

Parliament believes that SMEs are crucial to future development, growth and welfare in the EU, and that the EU's competitiveness vis-à-vis the world can be strengthened by prioritising SMEs. It considers that SMEs should be regarded as a motor for smaller investments financed by the cohesion funds and that the allocation of funds to universities and the promotion of partnerships with SMEs are key in this regard.

The European Union is invited to support its SMEs by facilitating their access to credit and creating a European Guarantee Fund for SMEs.

Global governance: Members call on the European Council to convene a G20 summit devoted solely to the reform required in governance at world level. They urge that mechanisms for economic governance within the Union be strengthened, especially from the point of view of better accountability, contingency management, and economic and employment policy coordination.