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

2010/2242(INI) - 06/07/2011 - Text adopted by Parliament, single reading

The European Parliament adopted by 434 votes to 128 with 33 abstentions a resolution on the financial, economic and social crisis: recommendations concerning the measures and initiatives to be taken.

European sovereign debt and Eurobonds: following the downgrading of the sovereign debt of Greece, Ireland and Portugal by credit rating agencies, there has been a spill-over effect across the eurozone countries and a shift in portfolios reflecting speculative and risk-averse behaviour by investors and that, as a consequence of this, market funding at sustainable rates has become inaccessible to Greece, Ireland and Portugal, resulting in the provision of financial assistance under EU-IMF programmes. Members call for the following:

- the International Labour Organization (ILO) should be involved in the EU-IMF financial assistance programmes;
- a **transparent audit of public debt** to be carried out in order to determine its origin and to ascertain the identity of the main holders of debt securities and the amounts involved;
- since the sovereign debt crisis has revealed the risks posed by intra-European imbalances, the EU should react as one, and develop a much closer **coordination of fiscal policies** and, where appropriate, a common one with a sufficient EU budget funded partly through own resources, and put in place adequate provisions for crisis management and economic convergence.

Parliament underlines that all Member States have systemic importance. It calls for a comprehensive, socially inclusive and cohesive **reform package addressing the weaknesses of the financial system.** It also calls for the following:

- the development of the concept of a **European Treasury** to strengthen the economic pillar of EMU;
- measures to overcome the current lack of competitiveness through appropriate **structural reforms**, addressing the objectives of the Europe 2020 strategy and the fundamental causes underlying the public debt crisis wherever necessary;
- Member States to return to sustainable public finances and growth rates, based on sound policies for quality public expenditure and fair and efficient **revenue collection**.

Parliament calls on the Commission to carry out an investigation into a future system of Eurobonds, with a view to determining the conditions under which such a system would be beneficial to all participating Member States and to the eurozone as a whole; points out that Eurobonds would offer a viable alternative to the US dollar bond market, and that they could foster integration of the European sovereign debt market, lower borrowing costs, increase liquidity, budgetary discipline and compliance with the Stability and Growth Pact (SGP), promote coordinated structural reforms, and make capital markets more stable, which will foster the idea of the euro as a global ‘safe haven’. It recalls that the common issuance of Eurobonds requires a further move towards a common economic and fiscal policy. Members stress, therefore, that when Eurobonds are to be issued, their issuance should be limited to a debt ratio of 60% of GDP under joint and several liability as senior sovereign debt, and should be linked to incentives to reduce sovereign debt to that level. The overarching aim of Eurobonds should be to **reduce sovereign debt and**

to avoid moral hazard and prevent speculation against the euro. Parliament notes that access to such Eurobonds would require agreement on, and implementation of, measurable programmes of debt reduction.

Lastly, it notes that there is political agreement on revising Article 125 of the Treaty on the Functioning of the European Union (TFEU) in order to transform the temporary EFSF system into a permanent ESM by 2013. It calls for the ESM to be converted into a European Debt Agency at a later stage and for Parliament to be given a consistent role in this modification of the Treaty.

Global imbalances and governance: Members recall that both some developed and emerging economies, such as the US and China, contribute to global imbalances; welcomes active participation and further integration of China into the global economic governance system. They call for new financial assistance arrangements to be introduced, as follows:

(1) A reformed IMF could act as a global lender of last resort and could counteract the need of individual countries to accumulate currency reserves if its ability to deliver short-term liquidity and stronger financial safety nets were strengthened. The EU must speak with one voice, and have a single representative on the IMF board in the mid-term.

(2) MDGs: the current crisis has highlighted the need to create incentives for financial markets to promote long-term investment and sustainable development:

- the financial role for the multilateral and bilateral development banks and organisations should be upgraded in response to the increased financing demands from developing countries;
- revenues from the **financial transaction tax** could be used in part to finance achievement of the MDGs and will be needed to meet climate change commitments;
- the importance of other financing for development instruments should be continuously explored, especially debt restructuring, cancellation of the debts of the poorest countries and promotion of remittance flows;
- the commitments in relation to foreseeable official development assistance should be reiterated and additional innovative sources of financing, aimed at closing the financing gap caused by shrinking economies in the developing world, should be explored;
- Member States should reaffirm their pledge to assign 0.7% of their GNI to development aid aimed at financing achievement of the MDGs.

(3)The EU must identify political priorities and agree on funding for closer Euro-Mediterranean cooperation following the upheavals and accompanying developments in the South Mediterranean partner countries; it is necessary in this context for European project bonds to be extended to Euro-Mediterranean projects in the fields of education, sustainable transport and energy, and the digital agenda thereby creating added value for both sides of the Mediterranean;

A new monetary system: Members request that the international monetary system (IMS) be reformed in such a way as to ensure systematic and comprehensive macroeconomic cooperation with sustainable and balanced global growth. The IMS should address inter alia:

- **exchange rates**: the first step would be to pursue policies that allow exchange rates to adjust gradually and sufficiently to changing macroeconomic fundamentals;
- **reserve currency**: reforms to the international reserve system would be needed to avoid a situation in which reserves lead to global imbalances; the current dollar-based international reserve system could be gradually replaced by a multilateral system centred on Special Drawing Rights (SDRs) representing a broad basket of currencies from across the globe, notably the Chinese renminbi and the Brazilian real;

- **capital flows**: a multilateral system of rules would need to be adopted to favour long-term movements of capital, to facilitate non-speculative capital outflows, to avoid disruptive effects in fragmented securities markets and to ensure transparent, open and smooth functioning of treasury bond markets, while avoiding their misuse as vehicles for the promotion of mercantilist or beggar-thy-neighbour policies.

Increasing competitiveness and implementing the Europe 2020 strategy: Parliament states that new investments should promote a knowledge-based economy, research and development, innovation, job creation and infrastructure and energy projects. It makes a series of observations and recommendations on energy and transport policies, migration, research and innovation, taxation and employment.

On the **Europe 2020 strategy,** Members call for full account to be taken of the Europe 2020 strategy objectives and the need to overcome all EU internal imbalances when defining the content of the European semester. Fiscal consolidation must be accompanied by medium- and long-term targets such as those identified by the Europe 2020 strategy, especially with regard to job creation, social inclusion, investment in infrastructure, resource efficiency, ecological transformation of the economy and a knowledge-based economy, so as to increase competitiveness and social and territorial cohesion. Parliament calls for a strict financial audit of all Member States, to be initiated by the Commission in close cooperation with Eurostat, in order to determine their actual financial status, thereby enabling fact-based decisions to be taken with regard to the Europe 2020 strategy and regional and cohesion projects; calls for scrutiny of all funding programmes in the EU and of national and regional subsidies. It recommends intensification of the projects and programmes, the success of which is vital, and in turn the eradication of ineffectual subsidies and economic development schemes.

Members call for **greater compatibility and complementarity between national budgets and the EU budget**. They take the view that the next multiannual financial framework must focus on the key priority areas of the Europe 2020 strategy and should ensure adequate financing of the flagship initiatives in the fields in which the EU has shared competence with Member States, which can provide strong European added value. Furthermore, the Europe 2020 strategy will only be credible if it is backed up by **adequate financial resources**, and the report makes a series of recommendations including a more prominent role for the European Investment Bank (EIB) in enhancing the catalytic role and leverage function of structural funds.

On **education,** Parliament proposes the establishment of an EU internship programme analogous to the Erasmus programme, with the full involvement of the private sector. It also ; strongly supports the introduction of measures to increase the quality of higher education in Europe, inter alia, by further reducing barriers to student mobility, improving the links between academia and business and fostering a more entrepreneurial mindset in society. Members propose the introduction of a European innovation scholarship and believe that such a scholarship would address youth in vocational educational programmes. They support the call by the European University Association (EUA) for public investment in higher education to be increased to 3% of GDP.

Re-thinking the EU beyond European economic governance: Parliament the report emphasises that the EU is at a crossroads: either Member States decide to join forces in deepening integration or the EU could drift apart, due to stagnation at the decision-making level and divergences at the economic level. It calls for a **deeper democratic political Union in which the EU institutions are given a stronger role** in both the design and the implementation of common policies, and emphasises the importance of strengthening the democratic legitimacy and control of the Union. It stresses that tackling the public debt crisis and increasing the EU's competitiveness, convergence and solidarity require a shift of competences and spending towards the Union, whereby the burden on national budgets would be considerably eased, and stresses the need to create significant synergies between national budgets and the EU budget, allowing for optimal use and allocation of existing fiscal resources on all levels, while respecting the principle of subsidiarity to support strong regions and states.

Members conclude that, in order to achieve political union and economic integration commensurate with monetary union, in line with the priorities agreed by the European Council, the EU needs a budget of sufficient size to accommodate the euro in a sustainable way, providing the currency with a relevant budget space on the level of political organisation at which it is issued; In this connection Recalls that reports preceding the realisation of monetary union – notably the McDougall report, which analysed the conditions necessary for the implementation of the Werner plan – affirmed that the volume of such a budget would have to be between 2.5% and 10% of Union GNI. Members take the view that deepening European economic integration is necessary in order to ensure the stability of the eurozone and of the Union as a whole, and that this will require further developments regarding the external representation of the eurozone, qualified majority voting on a corporate tax base, measures to combat tax evasion and tax avoidance, possible mutual issuance of sovereign debt and Eurobonds to stimulate fiscal discipline, the EU's borrowing capacity, a better balance between economic and social policies, own resources for the EU budget and the roles of national parliaments and the European Parliament.