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Recovery through Confidence

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The economic situation in the European Union requires rapid response. Growth is stagnating at around 1% whilst it is over 2.5% in the USA and 7% in China – unemployment lies at 10% (11.5% in the euro area), disparities between the Member States have grown instead of converging.

Although it still leads in term s of the production of wealth in the world and that it offers an unparalleled quality of life, the Union has lost its self-confidence. It is experiencing true political stagnation and its economic policy is an element of division and debate.

To get out of this rut it needs new impetus supported by new paradigms which are not necessarily the ones we expect. We cannot win today's battles and those of tomorrow with recipes from the past. True strategic thought that is open and pragmatic is needed for victory and success.

As usual the most competent *Diafoirus* regularly examine the case of Europe and lively polemic is born with in the Union – and outside – with ideas put forward to justify ancient theories.

It seems that the specific nature of EU integration and the European economy are not considered adequately when solutions are proposed which lead to many divisions between the members of a Europe that certainly does not need to add political divergence to its present difficulties.

POLICY

The progressive integration of Europe resembles nothing ever seen before and has no precedent in history. It is not surprising therefore that Europe surprises by its policies, including within its Member States, which are the result of a long historic process of national construction. From the 1950's to the end of the 1990's Europe recorded exceptional results that were unimaginable on the "warring continent", which was ruined and ravaged by destruction, threatened and then divided by the two worst ideologies ever invented by Man. In many respects Europe's reconstruction after the Second World War resembles today's Chinese miracle.

It was boosted by the liberalisation of the economy as well as by the opening of the internal and extern al borders, wisely anticipating globalisation.

But Europe's real base comprises constant political determination, shouldered by all successive European leaders and written down in the marble of the Treaties, which proscribed a return to the past, thereby protecting it from political upheaval. Until the creation of the euro the positive effects of progressive integration could be challenged by no one. Hence Europe comprises the greatest number of countries (6) in the list of those (10) with the highest revenue/capita. The quality of life in Europe is established – beyond the statistics – at a level never achieved before, if we look at the sum of economic successes and social progress which are unique in the world. We have reached a point where we deem these achievements to be irreversible; but we have slackened in our efforts – there has been a kind of abandonment in our own comfort, the responsibility of which is shared between the people and their leaders. But we have not reached all of our goals, since integration is still imperfect and far from complete.

THE SPECIFIC FEATURES OF THE EUROPEAN ECONOMY

The European Union is incomplete, starting with Economic and Monetary Union. It does not correspond to the reputedly intangible rules of grand economic oracles, Nobel Prize winners or not. It shocks the theorists of the "optimal monetary zone" or of unbridled finance, whose solutions however have not spared us from the serious subprime crisis or recurrent bubbles. The supporters of modern Keynesianism, the champions of liquidity injections explained that "it could not work". They were already wrong when they forecast the disappearance of the euro during the government debt crisis. They are wrong again today when they point to the differences between the various countries in the Union, as they try to promote solutions that are ill adapted to European reality.

In this time of rapid change Europe sets a challenge as it provides a different example of economic development – the one which successfully rebuilt a continent after the Second World War. It is based on requirements of a political nature expressed in the wake of terrible civil wars and is notably called the "social market economy", comprising financial regulation, solidarity between States, redistribution between rich and poor. Certainly it has over exploited these advantages an d now, given the world's new excessively finance-led economy, with emerging continents and competitors that are following fast on its heels, Europe is being forced to slow up on in terms of generous distribution , which it has pursued over the last 65 years. It now has to re-establish a sustainable level of debts and deficits for the long term. In hesitating to do so – in some Member States at least – it has laid itself open to the game of the investors, who are increasingly greedy for quick returns. They have singled out the disparities between the States that are still responsible for their debts. They are challenging the will to continue with the European project. The Union has triggered a spiral of mistrust because of its in capacity to move forward with the integration of its finances and its policies.

The end of the crisis will only be possible if confidence returns to the European project. This requires an analysis of specific European features, then new impetus and true commitment.

The European economy is specific in nature. Some features are shared but their sum is unique:

– A declining, worrying demography which explains the caution adopted vis-à-vis debt and a very specific approach to the future of retirement regimes,

– A generous social system whose weight is unparalleled in the world: 29.5% of the GDP, i.e. 10 points more than the USA, 20 points more than China and 6 points more than Japan,

– A high level of public and collective facilities, which raises doubt about the effectiveness of revival via public investment.

– The burden of public sector and government spending (47% of the GDP on average),

– The most equal redistribution mechanisms in the world,

– A very high stock of foreign investments but a flow that is slowing sharply,

– External trade that is still the world's first with over 2000 billion in exports and as m any imports, leading in the mid-term to recurrent surplus,

– A reasonable government debt around 90% of the GDP in comparison with 110% for the USA and 230% for Japan but 46.7% for China,

– A budget balance with an average deficit of 3% of the GDP, against 5.8% in the USA, 8% in Japan but 1% in China,

– High unemployment, around 10% – higher than our main competitors in the USA (under 6%), Japan (under 4%), China and Brazil (around 4%) and the world average which is barely more than 6%.

WHAT ECONOMIC AND POLITICAL ANSWERS CAN BE GIVEN?

Viewed like this and as a whole these contrasted results call for quite evident economic policy. They demand the upkeep of government debt in the absence of any pooling of the latter which would only be possible after total fiscal integration and economic policies designed to relieve the burden of the public sector and regulations that are impeding private initiative; they demand the control of social spending to protect its future and the principles, notably of health care; with the vital part of government effort being used to boost private investment, the only creator of sustain able work, to launch reintegration policies for the unemployed into economic activity – whether they are young or senior. In objection to this one might point to the disparities witnessed between the Member States which would demand different solutions depending on whether it was a country in the south or the north. And this is one of the most common clichés put forward. However the careful examination of employment results for example shows that two criteria are decisive in the reduction of unemployment : the liberalisation of the economy and the dynamics of private investment. Hence the UK and Germany have recorded a sharp decrease in unemployment (5.9 and 5%), the Baltic States have experienced a regular decrease in their unemployment rates and some Member States in Central Europe continue to record rates that are higher than average (Slovakia: 12.6%). At the same time the countries that are lagging behind in the reform of their labour laws an d social regimes, of the public sphere and spending are struggling (Italy, and France with 13.4% and 10.3% unemployed respectively), whilst those who have faced a serious debt crisis due to excesses (now being corrected) – still illustrate rather worrying but sharply declining figures (Greece, 25.7, Spain, 23.9).

The specific political and economic features of the European Union call therefore for specific response to the present difficulties. More than ever before, they justify common economic, fiscal and taxation policies and not divergent national solutions. The continuation of integration would be one of the most effective initiatives that national governments could take. But this would start with converging policies whilst artificial political divisions mean that we think that the choice of solutions is vast. This should be followed by a qualitative leap in terms of integration, which would only be possible on the initiative of some Member States.

The common institutions have already started and their work is moving in a new direction. Indeed the new European Commission seems to have gauged how important the stakes indeed are. Jean-Claude Juncker's plans announce that there will be significant change in the Union's policies and its functioning. There will be less regulation, which forms a stranglehold when added to national laws, less interference in the Member States competences, and one priority – one alone – reviving the European economy.

The President of the Commission 's first steps have been remarkable because he is not making empty promises nor will he remain in active. Determined, he has already started a true revolution in Brussels organising the Commission around a tight executive, he has imposed a communication method that addresses citizen s directly and has obliged the College of Commissioners to work as a team.

Finally the "Juncker Plan" is particularly innovative. It is exactly what is required to revive growth. Since 2007, which marked the beginning of the crisis, investment has slowed dramatically in Europe. According to the Commission's calculations 370 billion € in investments were missing from the European economy from 2007 to 2014.

Firstly the Union needs private investments. With a globalised financial industry, private capital invests mainly in regions where confidence is high, where growth is credible and expected. The scope of financial flows in the world – more than 1,500 billion $ traded daily in market transactions – justify Europe doing everything in its power to continue reaping in a share of this – so that major European companies can continue to invest in an attractive internal market. It is like this and not via the resurrection of "national workshops", re-invented to build yet more roads and roundabouts in an over equipped Europe that growth will create real jobs.

To do this confidence is the keyword and regulations must not be too cumbersome in view of the competitors we face. Jean-Claude Juncker's agenda, which is targeting legislation that is adapted to revival, in other words that does not create any further constraints, even if they are justified by a noble cause, is calibrated especially to achieve this goal. To achieve it we have to resist fashions and slogans, know how to delay certain initiatives in a timely manner, for example the protection of the environment, to maintain this necessary new course long term.

By drawing on 8 billion from the European budget for the first time, which will immediately be turned into 16 billion in guarantees, by requesting a 5 billion investment from the European Investment Bank, the Union's institutions will be able to mobilise 315 billion in private investments. The States are now being asked to contribute to the

"Strategic Investment Fund" which was created for loans, without this being counted in the deficits or government debts as described in the European treaties.

In this way hundreds of billions more euros might be mobilised via a determined, more enthusiastic participation on the part of Member States in the European Strategic Investment Fund. Privileging the preparation of the future over operational spending is an urgent requirement made possible by Jean -Claude Juncker. It is a reality. It is now up to the Member States to share in this together which seems to be the only way to revive the European economy long term .

Finally nothing would be more effective in terms of a return of confidence than the revival of the integration process. If one day we want to pool our debts, free the European Central Bank of an excessively restricted mandate, we have to be sure that all of the Member States will follow the same economic and fiscal goals and try to contain their debt by reducing their current expenditure. Even though the Union has m oved forwards a lot of work remains to do. Some have undertaken difficult reform, others are hesitating before a task that almost inevitably leads to an electoral sanction, and the Franco-German relationship – a vital engine in this – is at a standstill.

The progressive harmonisation of taxation and labour market rules would create the conditions for a return of confidence. If France and Germany – with some of their willing partners – would commit to harmonising their corporate tax regimes over ten years and yearly progress one tenth along the path we have to cover, investors would be confident in the creation of fiscal and social stability at the heart of the euro area. They would surely then have new reason to invest in Europe.

Hence it is not a question of solving highly complex issues in one fell swoop which also involves sovereignty, but of providing secure, stable prospects via a precise, engaging roadmap. This is the price for the return of confidence.

Reviving the integration process in a modest but decisive manner will guarantee the development of the European Union and will lead to many other significant results – starting with the end of "taxation excesses" on the part of States that have fallen on hard times!

To do this we do not need grand assemblies for the heads of State and government or long complicated legislation. We need commitment – at the highest level of at least two European leaders – here we turn to France and Germany – who would then be quickly joined by others. An initiative like this would sweep away nearly all of the imperfections of monetary union that was not followed by the fiscal union demanded of it.

Commitment like this would bring back confidence to Europe – with in, where there is doubt and on the outside, where people are speculating. Decisions like this demand leaders who can rise to the challenge, which today is largely determined by changes in the world economy.

We simply have to find them.

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