

9 May 2010

# The European Union has become

On 9 May 2010, EU finance ministers managed to stop the euro's feared collapse and with it the disintegration of monetary union. Yet the compromise does little to change the high level of debt across countries in the Eurozone or the failure to detect any green shoots of economic growth. The time has come for courageous decisions in national parliaments and, above and beyond this, a sea-change in the mindsets of an entire generation.

**W**herever I go, Greece hurts me" – this is the opening line of a 1936 poem by the Greek poet and diplomat Georges Seféris.

European heads of state and government must doubtless have had the same thought on many occasions over the course of the last few months. Ever since the Greek government was forced to admit last autumn that the budget deficit foreseen for 2009 would be more than twice the amount originally communicated to Brussels, private loan companies, so often placed under the catch-all category of 'international financial markets', have been experiencing more and more unease. The hugely indebted Greece – by 2013, the country will be in the red by an amount bordering on 150% of its gross domestic product – and an inability to count on the reliability of Greek governments in recent years, have only fed doubts that the country will ever be able to pay back its loans on its own. All this, not to mention uncertainty as to whether outside aid – i.e. support from the other countries in the European Monetary Union and from the International Monetary Fund – would actually materialise.

These doubts then started spreading increasingly to other countries: the gaze of the international credit institutions began to settle, time and again, on Portugal, Spain, Ireland and even Italy, in spite of assertions from the governments of these countries as to the rude health of their nations' economies. A dangerous spiral was beginning to develop. The flimsier the trust in the integrity or ability of the country to pay back the debt over the long-term, the higher the level of interest rates imposed by creditors, thus delivering a further body blow to the financial woes of the countries in question.

In the week leading up to the 60th anniversary of Robert Schuman's historic declaration, panic around the financial markets mounted and, following a 7 May meeting of heads of state and government of countries belonging to the Eurozone, EU finance ministers met in a dramatic meeting on 9 May which will go down in the annals of history; finally making this day a key date in the history of European unification. For this reason, it is worthwhile going over the conclusions of the meeting in its various aspects one more time.

## Important decisions by the ECOFIN Council, held on 9 May 2010

As in the European Council declaration, the deci-

sion by the EU's economic and finance ministers can be divided into four parts, even if the second part surprised most observers in terms of its dimensions and boldness:

The aid package for Greece, totalling 110 billion euros, which had already been hammered out on 2 May at the request of the Greek government, was finally set in motion and the first payments were made just days later.

In addition to this, a set of measures to safeguard the "stability, unity and integrity of the Eurozone" was agreed. The text, over which ministers were wrangling until the early hours of the next morning, starts with the mutual obligation to be prudent and promote growth. Portugal and Spain agreed to rapid additional efforts to clean up their national budgets. In addition, EU and euro countries drew up credit lines, using a variety of instruments, amounting to a ceiling of 60 billion euros; and 440 billion euros which members of the Eurozone could call on should they find themselves unable to make their payments. Along with funds from the International Monetary Fund, this brought the aid funding to a total of 720 billion euros. The package was also supported by the surprising decision by the European Central Bank to buy up loans from States in serious financial difficulty.

The third section announced the determination on the part of the members of the Monetary Union to improve 'economic governance'. This includes tighter monitoring of budget management by euro countries, more effective sanctions when the Stability and Growth Pact is violated and the drafting of a mechanism to overcome crises at an earlier stage of their development. The working group, led by the President of the European Council, Herman van Rompuy, began its work on 18 May and is due to present its proposals, which could also include changes to the Treaties, as soon as possible (see box).

The last part underlines the urgent need to regulate the financial markets. In order to shield against "speculative attacks on States" in particular, a greater level of transparency will be required for new financial products, often termed as 'derivatives', as well as in the practices of rating agencies.

## A markedly federal identity

The decision by the ECOFIN council for an impos-

# *a date to remember!*

## more federal, but this alone will not be enough

ing aid package means that the European Union, at whose core currency union has an undisputable place, has assumed a markedly federal identity. The euro countries have agreed to vouch for one another, at least indirectly, and at the high price of harder conditions, as we can now witness in Greece. In future, a financial 'society of convenience', unforeseen in the Treaties, will be able to take out loans on behalf of the euro countries and giving their guarantee.

The change of heart on the part of the European Central Bank as outlined above has led to questions being asked about its independence, explicitly laid out in the Treaty. This is why doubts over the stability of the euro have reached a crescendo, particularly in Germany and the Netherlands. However, one would be hard pressed to see what significant alternatives there were to the courageous decisions made on 9 May 2010. No one is disputing the fact that they carry with them great risks. The heavy burden of debt has not been reduced by the decisions of 9 May; rather it has simply been placed onto more and stronger shoulders in a spirit of solidarity. However, a community of solidarity cannot endure without its members acting responsibly and in a manner which inspires trust.

And yet, even if the collapse of public finances in a host of euro countries may well have been averted at the last minute, the lack of equilibrium that prompted the crisis persists. Over the last few years, almost all euro countries have lived well beyond their means, notching up high levels of debt which also need to be eradicated when one considers the issue of demographic change. Post-9 May, the fate of monetary union and, last but not least, that of European integration, the dream which emerged from the wreckage of the Second World War, will no longer be decided in Brussels meeting rooms but rather in budget consultations held by national parliaments.

However, experience has shown that politicians in today's democracies have little room for manoeuvre when it comes to cutting expenditure. And there probably lies

the root of the evil in Europe, the niggling parasite that came into such sharp focus in recent months and will prove tough to eradicate. When all is said and done, today's MPs stand for a generation which seeks fulfilment in the satisfaction of material needs and whose aim is to free itself from the shackles of labour by demanding ever more free time and the chance to retire at an increasingly younger age.

All we need do is glance through the history books to learn that this behaviour is not innate and that it is possible to find meaning for a life in and through work - failing this, we might consider the example of smaller communities which are not guided by economic goals and choose to organise their lives in a different fashion. Here, Churches can make a specific contribution towards Europe's future in their capacity as living guardians of traditions and of Christian communities inspired by diaconal enthusiasm.

All we can do is hope that the present day poets will not need to complain that wherever they go, Europe hurts them.

**Stefan Lunte**

*Translated from the original German*

### The Task Force on Economic Governance

On 21 May the European Council task force met for the first time. It is composed of the Ministers of Finance of the 27 Member States, Commissioner Olli Rehn, the President of the European Central Bank Jean-Claude Trichet, the President of the Euro Group Jean-Claude Juncker and chaired by the President of the European Council Herman Van Rompuy. After the meeting the latter presented four goals for better economic governance which was agreed by all of them:

- Greater **budgetary discipline** through a strengthened Stability and Growth Pact
- A **reduction in the divergences in competitiveness** between the Member States, and in particular those in the euro area
- The need for an effective **crisis mechanism** to deal with problems such as those seen in Greece
- The institutional **reinforcement of economic governance** in order to react more quickly and more efficiently.

However, Herman Van Rompuy did not take up the request from the German government to install a formalised procedure for dealing with the insolvency of a member of the monetary union. Setting up such a procedure would imply a change in the European Treaties which most of the Member States do not want to entertain.

The next meeting of the task force is foreseen before the summer break in order to present a first report to the European Council on 17 June.